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The Honorable Monique Limón
Senate President Pro Tem
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Robert Rivas
Speaker of the Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

The Honorable Brian Jones
Senate Republican Leader
1021 O St. Suite 7640
Sacramento, CA 95814

The Honorable Heath Flora
Assembly Republican Leader
State Capitol Building
Room 4740
Sacramento, CA 95814

Dear Honorable Members:

My name is Louis S. (Lou) Thompson. From 2009 to 2024, I was a member of the Peer Review Group reporting to the legislature on issues related to the high-speed rail project. I was Chairman from 2012 to 2024. In my letter of resignation, I again emphasized the Group's recommendations that the legislature commission an independent study of the problems experienced in the project, what to do about them, and the lessons that should be learned. Subsequent reports by the Authority – the 2025 Project Update Report, the 2025 Supplemental Project Report, and the Draft 2026 Business Plan – have underlined the urgent need for such a study, both because of the difficult situation the project faces and because of the risks the project poses to the state. The views below are my own and should not be attributed to anyone else.

In my judgement, the Draft 2026 Business Plan describes a project that has reached a dead end. Despite contrary claims, the Authority cannot complete the promised 171-mile link from Merced to Bakersfield by the end of 2032 with the funding available. The full Phase I project that the 2008 Business Plan promised would cost $33.8 billion and yield a 2-hr 40-min trip time from San Francisco to Los Angeles is now estimated to cost $231 billion. The Authority proposes an "optimized" plan that would cost $126 billion, but the plan is based on questionable savings due to proposed design and sequencing changes, and on poorly described scope reductions such as leaving an unfunded gap between Gilroy and San Jose and blended operation with Metrolink between Palmdale and Los Angeles/Anaheim, along with an unresolved delay in the Link US project at Los Angeles Union Station. All of these will have an undefined but clearly negative impact on trip times and on the project's total cost and schedule. Even accepting **all** of the assumptions on which the "optimized" system is based, the project and the state still face an unfunded gap of at least $91 billion for which entirely new sources would have to be found. **This is not, not even remotely, the system the voters approved in Proposition 1A.**

How did this happen? What should be done about it? What are the lessons for the state? These questions should be addressed in a detailed, independent study commissioned by the legislature. In advance of that study, I would like to propose a few likely conclusions.

How did this happen?
The roots of the problem were partly baked in from the beginning and partly self-inflicted as the project developed:

- The grand "vision" of the project sold to the public in Proposition 1A was far short of any realistically achievable cost and schedule. This could have been due to naivete, "irrational exuberance," "strategic misrepresentation", short-sighted political self-promotion or, more likely, a combination of all four.
- The funding plan had three fatal flaws:
    - It was far below a reasonable estimate of the project's actual capital costs;
    - It propounded state, federal and private shares of financing that were completely unrealistic. The state share was to be a one-time bond issue of roughly one-third of the cost. The proposed federal share of roughly one-third of the cost was based on aspirations for federal programs **that did not exist then and do not exist today**. The project did benefit from minor federal financing programs and was boosted for a while by the American Recovery and Reinvestment Act of 2009 (ARRA) funding, most of which has been rescinded (twice) by the Trump Administration. It should be noted that the Authority has recently decided not to sue the Federal Railroad Administration for restoration of that funding, possibly recognizing that it does not have a convincing business case. Similarly, outreach by the Authority has shown that private investors will not make a significant contribution to project construction, but will await completion and proof of the projected demand and operating costs;
    - Probably most important, the funding has come in insufficient and unpredictable **pieces**, not a stable and adequate **flow** that would permit effective planning and management of construction over the life of the project. The recently awarded $1 billion in annual funding from the Cap and Invest program through 2045 has helped, but it will not suffice even to complete the 171-mile Merced to Bakersfield segment by the end of 2032 as promised in the Draft 2026 Business Plan.

Given these critical problems at the outset, even the best management would have failed.

Actual commencement of the project then brought more issues to the fore.

- A decision to have "lean" state management combined with a slow state hiring process (and low state salaries) meant that there was not enough state employee oversight of the large teams of consultants, so decisions that only state employees could make were delayed and often not fully informed.

- Inexperience and lack of expertise, and turnover of senior leadership (and changing visions and priorities caused by that turnover), at the Authority greatly hindered progress at the outset. This has only slowly and partially been rectified.
- The search for added funding led the Authority to seek and accept ARRA funding under conditions that caused (or assisted) the Authority to commit to construction far sooner than designs and real estate acquisition should have dictated. One result of this haste has been an average cost overrun of 150 percent and large schedule delays on the major construction projects awarded so far. This performance compares poorly with other large public works projects, let alone the private sector.
- Real estate acquisition has been delayed by limits on the Authority's legal power and by limited capacity of courts to process claims, contributing to the fact that current schedules on the major contracts are now two and a half times the expected schedule at contract award.
- Compliance with NEPA, and especially CEQA, has been burdensome and expensive. Because the cost of delay on a project of this size is very high, the threat of litigation by an individual or local authority can put immense pressure on the Authority to make expensive accommodations that are not central to the project's goals. The large number of local authorities and utilities that the Authority must deal with has compounded the problem.
- Oversight of the Authority by the governor's office and the legislature has not identified and dealt with problems effectively. This is despite the excellent preparatory work by legislative staff, the Legislative Analyst's Office and, more recently, the Authority's Office of the Inspector General.

What should be done about it?

There are several actions that need to be taken.

- **Above all, the Authority's and legislature's state of denial should end.** Until this happens, the downward spiral of overpromising, followed by budget problems, followed by disruptive scope reductions, followed by contractor claims, cost increases and service reductions, cannot be halted. The project began as a promise of service from San Francisco to Los Angeles. Then, in the 2014 Business Plan, it focused on connecting Los Angeles and postponed the connection to San Francisco. Next, in the 2016 Business Plan, it shifted to connecting San Francisco and postponed the connection to Los Angeles. Then, by the 2018 Business Plan, it had postponed both connections and aimed at a connection from Merced to Bakersfield leaving vague plans for a reduced service on the ends. Now, in the Draft 2026 Business Plan, even the 171-mile Merced to Bakersfield cannot be completed by the end of 2032 without access to more funding than is currently available.
- **The legislature and governor should direct the Authority to stop overreaching and reformulate the Merced to Bakersfield segment into a set of separable, achievable stages**, in order of priority, with each stage to be commenced **only** if the prior stages can clearly be completed within available funding. Suggested potential stages, in order of priority, might be:

    - Complete the construction and trackwork on the 119-mile segment from Madera to Poplar Avenue with connections to the existing San Joaquin service;
    - Complete the design, real estate acquisition, construction and trackwork on either the segment from Madera to Merced or the segment from Poplar Avenue to Bakersfield;
    - Complete the other segment not chosen above;
    - Contract for electrification;
    - Contract for high-speed rolling stock.

  Given the likelihood (based on ample experience) that the current cost estimates are overly optimistic, this approach might lead to postponement of any commitment to electrification and electric rolling stock unless additional financing is developed.
- **The legislature and governor should require the Authority to provide**, either in the Final 2026 Business Plan or in a supplemental document with a **scheduled** due date:
    - A detailed listing of the scope reductions, design changes and cost reductions involved in the $105.1 billion "optimization" that reduced the proposed cost from $231.3 billion to $126.2 billion;
    - A specific description of the Authority's plans for filling the gap between Gilroy and San Jose along with agreement from the state and involved regional agencies on roles, responsibilities and funding for the actions needed to act to fill the gap;
    - A completed agreement among the state, San Joaquin Joint Powers Authority and the Authority as to operating and funding roles on the Merced to Bakersfield segment;
    - A detailed description of the Authority's plans south of Palmdale including agreements with Metrolink covering electrification of Metrolink lines, blended operations and LA Metro's plans to complete the Link US project;
    - A link-by-link specification of trip times expected in the "optimized" system.
- Most important, the Authority now says that it will cost $34.8 billion to complete the "optimized" segment from Merced to Bakersfield. The state therefore faces a gap of at least $91.4 billion to complete an "optimized" Phase I system that would have reduced performance, and a gap of $196.5 billion to complete the full Phase I buildout as originally planned. It is increasingly critical to decide whether the state wants to stop at some version of Merced to Bakersfield within existing finances or wants to plan for extension outside the Central Valley. **The legislature and governor should urgently address the question of whether the system is to be extended beyond Merced to Bakersfield, what the extension would look like, and how the $91 billion to $196 billion gaps will be addressed.**

What are the lessons for the state?

High-speed rail is not the first mega-project undertaken by the state and it will surely not be the last. Mega-projects are distinct in many respects, but there are general lessons.

- Mega-projects tend to be doomed from the beginning by poor definition of scope and objectives, poor cost and schedule estimates, and over optimism about the difficulty of the project. These are often boosted by people with no "skin in the game" or with a vested interest in making the project go ahead whether or not a justifiable basis exists. Once a project actually commences, political pressures from short-term beneficiaries – consultants, construction contractors and labor unions -- intensify, so efforts to support careful planning and evaluation by **independent** agents to assess the objectives and costs of the project before it is committed are always a good idea. California is very fortunate to have universities that can lead such independent evaluations.

- Very few mega-projects are adequately funded at the beginning, and even fewer are funded by an appropriate **flow** of funding that both matches the timing of construction outlays and permits adjustments (usually extensions) in total funding when that becomes necessary. This was a particularly destructive problem for the high-speed rail project. Multi-year projects must be accompanied by multi-year funding that is adequate, predictable, and stable; without this, effective project management is impossible. If a project cannot be funded the right way, that is a clear signal that the project should not be started.
- It is always a mistake to start projects with an imbalance between public employees and consultants. State hiring requirements impose constraints on hiring and on-boarding appropriate staff, and this can impose significant hidden costs on projects. Also, management of the project by a separated Authority, created *de novo*, denied the project the benefit of expertise and expertise of existing state agencies, such as Caltrans. This may have made acquisition of real estate and initial contract management more difficult, and it may also have made oversight by the legislature and governor's office more difficult.
- By the same token, insufficient oversight can delay full and timely recognition of problems with a project's cost, schedule or eventual performance. In the high-speed rail project, the legislature and the governor had ample information from staff, the Legislative Analyst's Office, the Peer Review Group and, later, the Authority's Office of the Inspector General to assess the project's progress, or lack thereof. It is difficult to reconcile the limited oversight with the high risks that the high-speed rail project poses to the state.
- Delays in acquisition of real estate, development of utility relocation agreements, and agreement on access to railroad rights of way imposed (and are still imposing) major costs and delays on the project, particularly as it related to lack of court capacity to adjudicate disputes. Constitutional rights must of course be respected, and negotiation is always the first resort, but finality within reasonable time is also critical, and more court capacity would help.
- Compliance with NEPA was burdensome, but the eventual transfer of NEPA compliance responsibility from the Federal Railroad Administration to the Authority was constructive.
- Threats of litigation increased the ability of local authorities to force the Authority to change plans or add features in order to avoid delays. Enhanced court processing capacity for litigation issues would be helpful. This should not mean that project managers could ride roughshod over local interests; rather, it should mean that issues are fully identified and fairly adjudicated expeditiously.

I very much hope that this letter can contribute to getting the project the revised direction it so badly needs. I would be happy to answer any questions or provide further information if that would be helpful.

Sincerely,

Louis S. Thompson

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cc: Gabriel Petek, State Legislative Analyst
Samuel Assefa, Director, Governor's Office of Planning and Research
Tom Richards, Chairman, California High-Speed Rail Authority
Ian Choudri, Chief Executive Officer, California High-Speed Rail Authority
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