



California High-Speed Rail **BRIEFING: FEBRUARY 18, 2020 AGENDA ITEM #3**

TO: Chair Mendonca and Board Members
FROM: Brian Annis, CFO
DATE: February 18, 2020
RE: Merced to Bakersfield Business Case Study

Summary

Pursuant to direction from the Finance and Audit Committee, the Authority's Financial Advisor, KPMG, has completed a Merced to Bakersfield Business Case Study (Study) that analyzes key aspects of the proposed interim high-speed rail service (Interim Service) between Merced and Bakersfield articulated in the Authority 2019 Project Update Report. Specifically, this Study discusses funding and affordability, capital costs, delivery schedule, operating and maintenance costs, ridership and revenue forecasts, business model, commercial considerations, socio-economic impacts and other benefits such as safety. The purpose of this Study is to present the merits and considerations of proposed Interim Service in the Central Valley. This Study also identifies key risks and opportunities, and highlights the interconnected nature of the proposal with passenger rail service provided by the San Joaquin Regional Rail Commission (Altamont Commuter Express) and the San Joaquin Joint Powers Authority (Amtrak San Joaquins). The analysis and insights may help inform the Authority and its Board for the 2020 Business Plan, in future decision-making processes, and for contracting and business planning activities.

The work was undertaken from June to December 2019 and included the following tasks:

- Review historical context and justification for a Merced to Bakersfield Interim Service
- Review the Central Valley and Peninsula Corridors Operations Financial Plan Study (A study completed by the Authority's Early Train Operator), including supporting data, analysis and follow-up analysis
- Analyze capital cost forecasts and Authority's funding status
- Develop a business model for Interim Service in the Central Valley
- Solicit input from key stakeholders
- Review implications of Interim Service on the Valley-to-Valley Initial Operating Segment (IOS), including additional ridership, revenue, and operating cost forecasts
- Review socio-economic benefits and cost benefit analysis
- Identify and analyze risks and opportunities

Background

The Authority has never had full funding in hand to complete the entire Phase I system from San Francisco to Los Angeles / Anaheim, and has therefore pursued the building-block approach to advance the project in fundable sections as revenue is identified. Through this approach, the Authority currently has a 119-mile

segment under construction in the Central Valley between Madera and north of Bakersfield, as well as “bookend” projects in the Bay Area and Southern California. The 2018 Business Plan noted full funding to complete the Silicon Valley to Central Valley section was not identified and called for study of early interim service in the Central Valley and in the Bay Area as possible initial steps toward full Silicon Valley to Central Valley service. The 2019 Project Update Report recommended Interim Service between Merced and Bakersfield, based on the findings of the Early Train Operator (ETO) that early interim service would provide significant mobility, ridership, and environmental benefits.

As a follow-up to the 2019 reports, the Finance and Audit Committee requested that the Authority’s Financial Advisor, KPMG, complete a Merced to Bakersfield Business Case Study. Concurrently, the Board asked the ETO to expand its original analysis to include Southern California, and then to provide a “Side-by-Side” comparison of investment outcomes in the three high-speed rail corridors: (1) San Francisco to Gilroy, (2) the Central Valley, and (3) Burbank to Anaheim—that report is separately presented.

Prior Board Action

In May 2019, the Board’s Finance and Audit Committee directed the Authority’s Financial Advisor KPMG to review and develop a business case for the proposed Merced to Bakersfield interim electrified high-speed rail service.

Discussion

The Financial Advisor’s Study has identified significant benefits to support the operation of Interim Service between Merced-Bakersfield including:

1. Significant socio-economic benefits based on scale of work
2. Enhanced ridership due to the creation of a mobility hub in Merced
3. Interim Service utilizes and maintains the Authority’s assets
4. Interim Service reduces state rail costs, but does not break even
5. Estimated cost is within current budget estimate
6. Positive return on investment is possible as system expands

The Study also identified material implementation risks arising from contractual interfaces, relative timing and multiple stakeholders associated with the introduction of Merced to Bakersfield Interim electrified high-speed rail service:

7. Interim Service requires its own business model
8. Additional capital investments need to be completed by partners
9. Long term contracts affect Interim Service
10. Delineation of capital program and interim service risks

The Study presents the following recommendations for the Board to consider in the context of the context of the Merced to Bakersfield Interim Service the Study:

1. Implement Interim Service in the Central Valley to mitigate maintenance costs and tap into mobility benefits
2. Pursue an interagency agreement to establish business model
3. Secure funding streams to complete the capital program
4. Complete preparatory work in advance of executing major contracts
5. Incrementally advance extensions to manage risk

Legal Approval

N/A

Budget and Fiscal Impact

This is an informational item on the Financial Advisor's Merced to Bakersfield Business Case Study, and by itself, does not have a budget or fiscal impact.

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Original Signed on 2/12/2020
Reviewer Name and Title: Alicia Fowler Chief Legal Counsel	Signature verifying legal analysis: Original Signed on 2/12/2020

Recommendations

N/A. This report is presented to the Board for informational purposes as it reviews the Draft 2020 Business Plan.

Attachments

KPMG Merced to Bakersfield Business Case Study