CALIFORNIA STATE AUDITOR
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FACT SHEET

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The California State Auditor's Office released the following report today:

High-Speed Rail Authority Follow-up

Although the Authority Addressed Some of Our Prior Concerns, Its Funding Situation Has Become Increasingly Risky and the Authority's Weak Oversight Persists

BACKGROUND

Created in 1996 to develop and implement intercity high-speed rail service, in addition to its other duties the High-Speed Rail Authority (Authority) manages the voter-approved Safe, Reliable, High-Speed Passenger Train Bond Act for the 21st Century that provides $9 billion from the sale of general obligation bonds for construction of a high-speed rail network (program). We conducted an audit to determine the Authority's readiness to manage these funds and reported in April 2010 concerns about its inadequate planning, weak oversight, and lax contract management. The Authority continues to expect construction to occur in multiple phases but has now, more than doubled the cost estimate for phase one and extended the timeline for it to be fully operational by 14 years.

KEY FINDINGS

During our review of the Authority's progress in addressing issues we raised in our April 2010 report, we noted the following:

- The program's funding situation has become increasingly risky—in its 2012 draft business plan, the Authority estimates that phase one of the program will cost between $98.1 billion and $117.6 billion, yet has only secured about $12.5 billion to date.
    - ✓ The plan has not identified viable alternatives in the event that its planned funding sources do not materialize—it relies heavily on securing tens of billions of dollars of federal funding, yet fails to present specific steps for acquiring these or other funds.
    - ✓ The plan lacks key details regarding costs and revenues which compromises the Authority's transparency.
        - The full cost of the program is not clearly presented and the operating and maintenance costs for phase one, which we estimate to be almost $97 billion, are not included in the plan.
        - The Authority projects securing private sector investments over four years beginning in 2023 yet did not specify in the draft business plan that this is based on the concession that private sector investors will receive all of the program's net operating profits from 2024 to 2060 in return for their investment.
    - ✓ The success of the program hinges largely on the accuracy of its ridership projections—fundamental to the revenue projections and to private investors' interest in the program. However, the Authority has not fully addressed questions about the accuracy of the model's long-term projections.
- The Authority may have compromised providing effective oversight by placing the largest portion of the program's planning, construction and oversight in the hands of contractors—in particular, the entity that manages the program (Program Manager).
- By relinquishing significant control to the Program Manager, the Authority may not be aware of or have addressed areas of significant concern that could impact the program.
    - ✓ Similar to our prior audit, we found over 50 errors and inconsistencies of various types in three Program Manager's monthly progress reports we reviewed and noted several significant discrepancies between the regional contractors' reports and those of the Program Manager.
- The Authority inappropriately split its information technology (IT) services valued at $3.1 million into multiple contracts—rather than competitively bid the contract—when it renewed its IT services. In addition to the initial contract, the Authority used 13 individual contracts over a 15-month period that ranged from $105,655 to $249,999.99 for similar services with one vendor.

KEY RECOMMENDATIONS

We made several recommendations to the Authority to ensure the public and the Legislature are aware of the full cost of the program including that it clearly reports total costs and discloses all assumptions in its funding and cost estimates. The Authority should continue to fill positions to decrease its reliance on contractors and ensure its Program Manager's progress reports are consistent, accurate, and useful. To manage its contracts effectively, the Authority should develop procedures to detect and prevent contract splitting.

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