



California High-Speed Rail **BRIEFING: February 9, 2021, Board Meeting Agenda Item #2**

TO: Chair Richards and Board Members
FROM: Brian P. Kelly, Chief Executive Officer
DATE: February 9, 2021
RE: Release of *Revised* Draft 2020 Business Plan

Summary

The California High-Speed Rail Authority (Authority) is required by Public Utilities Code Section 185033 to prepare, publish, adopt, and submit a biennial Business Plan to the Legislature. In February 2020, the Authority issued a Draft 2020 Business Plan for public comment. Subsequently, the COVID-19 pandemic caused the final 2020 Business Plan to be deferred. The Authority has prepared a *Revised* Draft 2020 Business Plan, which has been issued on February 9, 2021 and posted on the Authority's website. Staff will present a high-level briefing to the Board of Directors at its February 9th meeting and a 30-day public comment period will begin. The 30-day comment period will run through March 12, 2021.

The Authority intends to hold a public hearing to take comment on the *Revised* Draft 2020 Business Plan; the date of the hearing will be announced on February 9th and the public will be notified of the hearing date through social media and on the Authority's website. Staff will provide a summary of public comments received from the public to the Board of Directors, along with potential revisions for Board consideration, prior to Board action, scheduled for March 25, 2021.

The *Revised* Draft 2020 Business Plan restates the importance of fulfilling the mission set forth in Proposition 1A to deliver the full Phase 1 system and enable the state to meet its mobility, environmental and economic objectives. It presents a vision for delivering high-speed rail in California focused on three key principles:

- 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.

The *Revised* Draft February 2020 plan lays out an implementation strategy to advance this mission consistent with these principles. Our priorities have not fundamentally changed since February 2020. However, we are now recommending to advance design on the remaining project sections between Bakersfield and Anaheim and between San Francisco and Merced as each is environmentally cleared. Specifically, the priorities are:

- Complete construction of the 119-mile Central Valley Segment and lay track to fulfil our federal grant agreements with the Federal Railroad Administration (FRA);
- Meet our federal commitment to environmentally clear the entire 500-mile system between San Francisco and Los Angeles/Anaheim;
- Advance construction on the “bookend” projects that we have committed funding to the Los Angeles Basin and the Bay Area;
- Commence testing of the electrified high-speed system in 2025, certify trains by 2027, and put electrified high-speed trains in service by the end of the decade;
- Expand the 119-mile segment in the Central Valley to develop 171 miles of electrified high-speed rail service by advancing design, funding pre-construction work and constructing extensions to Merced and Bakersfield, connecting downtown Merced, Fresno and Bakersfield with additional stops at Madera and Kings/Tulare;
- Advance project design in each segment, including the four Southern California segments between Bakersfield and Anaheim and the two Northern California segments between San Francisco and Merced as each segment is environmentally cleared; and
- Pursue federal and private funds prospectively to “close the gaps” and expand electrified high-speed rail service to the Bay Area and Los Angeles/Anaheim, completing the Phase 1 system approved by the voters in 2008.

The proposal to develop interim service between Merced and Bakersfield was informed by two studies that were requested by the Board of Directors in 2019, specifically, the *California High-Speed Rail Merced to Bakersfield Business Case Study* prepared by the Authority’s financial advisor, and the *Side-by-Side Study* prepared by the Authority’s Early Train Operator.

Members of the Legislature and the California High-Speed Rail Peer Review Group (Peer Review Group) raised questions about the interim service proposal. In response, the Authority conducted additional analyses and made additional efforts to address their comments and questions which are described in the *Revised Draft 2020 Business Plan* and include:

- A peer review of the ridership forecasts prepared by the Early Train Operator was conducted by an independent review team comprised of Resource Systems Group (RSG) and its sub-contractor LTK. RSG will present the results of its review at the February 9, 2021 Board meeting and its report will be posted on the Authority’s website.
- The Peer Review Group recommended a Memorandum of Understanding (MOU) be developed to establish roles and responsibilities and address issues associated with operating interim service including the requirements of integrating interim operations with existing intercity and regional rail systems. A MOU was developed and approved by the Governing Board of the SJJPA in November 2020 and signed by Authority CEO Brian Kelly and California Secretary of Transportation David Kim in December. A copy of the MOU is on the Authority’s website.
- Legal questions regarding the Authority’s interim service business model as it relates to Proposition 1A “no operating subsidy” provisions are addressed in the *Revised Draft 2020 Business Plan*.

The results of these efforts reaffirm our belief that expanding the 119-mile line currently under construction by an additional 52 miles into the cities of Bakersfield and Merced is an appropriate next step for building out the system.

This *Revised Draft Plan* focuses extensively on risk. Because the public comment period for the *Draft 2020 Business Plan* issued in February 2020 coincided with the commencement of the COVID-19 pandemic, the Authority received a number of comments and questions about the potential risk and uncertainty that the pandemic presents to the program both in the short- and long-term. Over the past year, the Authority has conducted a comprehensive risk analysis to identify and assess potential risks and to develop strategies to better manage and mitigate them. We are taking three specific steps:

1. Increasing the risk contingency in our Program Baseline budget;
2. Establishing an Enterprise Risk Management program, including the creation of a risk committee and strengthening our expertise in risk analysis under the direction of a newly appointed Director of Risk Management and Project Controls; and
3. Implementing a Stage Gate project development and delivery program to bring more structure and rigor as projects advance through planning, design and into construction which will help us better understand, manage and mitigate risks before starting future construction contracts.

Background

The Authority issued the Draft 2020 Business Plan on February 12, 2020. Notices were circulated, and the information was posted on the Authority's website. Stakeholders and the public were provided various ways to comment on the Draft Plan. A public hearing was held at the February 18, 2020, Board of Directors meeting and the public comment period was scheduled to close on April 13, 2020. However, later in February, federal, state and local governments issued emergency "stay-at-home" orders in response to the outbreak of COVID-19 and to protect citizens' health and well-being. This resulted in changes to the public review schedule for the Draft 2020 Business Plan.

On April 6, the Speaker of the Assembly asked that the submittal date of the final 2020 Business Plan be extended to July 1, 2020. Upon confirmation with the Senate President Pro Tempore's Office, the Authority agreed to the revised date of July 1, 2020. To accommodate the new date, the Authority extended the public comment period to June 1, 2020. This extension allowed for additional legislative hearings and additional opportunity for the public to comment on the plan.

Comments were received through a variety of means, including Board hearings, a legislative hearing, letters and the Authority's website. The Board received public comment on the Draft Plan at its February 18 and April 21 Board meetings. In addition, comments were received at a May 27 Assembly Transportation Committee hearing, during which legislators also heard from the Legislative Analyst's Office, the California High-Speed Rail Legislative Peer Review Group (Peer Review Group), regional agencies and stakeholders as well as members of the public. The Authority also held briefings with individual legislators and other elected officials to seek comments on the Draft Plan.

Against this backdrop, it became clear that the uncertainty surrounding the depth and duration of the pandemic would continue to create unknowns that warranted further assessment. For that reason, the Administration, Legislative leadership and the Authority agreed to defer the adoption of the 2020 Business Plan from July 1, 2020, to December 15, 2020. Subsequently, in early December 2020, all parties reached a second agreement to release a Revised Draft 2020 Business Plan by February 12, 2021 for a 30-day public comment period, and that the Authority would submit the final 2020 Business Plan to the Legislature by April 15, 2021. As part of these agreements, the Legislature removed the requirement to submit the California High-Speed Rail Project Update Report in March 2021.

Prior Board Action

No prior Board action has been taken on the 2020 Business Plan.

Discussion

Below is a summary of the changes and updates included in the *Revised* Draft 2020 Business Plan:

Chapter 1 – Investment in Clean Transportation

- Updated information on how California high-speed rail supports climate goals
- New information on small and disadvantaged business participation, construction workers dispatched, and other metrics associated with creating opportunity and fostering diversity
- Updated data on the economic impact of high-speed rail

Chapter 2 – The Covid-19 Pandemic Impact on California High-Speed Rail

- Discusses the pandemic's effects on the program, including construction
- The effect on the Track and Systems procurement schedule
- The effects on the schedule for advancing environmental documents

Chapter 3 – Advancing Through Challenges

- Progress on a range of metrics since 2018 despite the challenges of the pandemic
- Current data on construction progress
- Updated construction and environmental schedules
- Updated discussion on the Track and Systems procurement process

Chapter 4 – Expanding the System

- Summary of the Business Case Assessment and Early Train Operator Side-by-Side Study
- Summary of analyses and other work completed to address comments by legislators and Peer Review Group
- Updated implementation plan
- Review of progress in Northern and Southern California bookend projects

Chapter 5 – Costs and Funding Update

- Updated discussion of current and authorized funding
 - State Funding/Cap-and-Trade section includes discussion of COVID-19 effect on 2020 quarterly Cap-and-Trade auction and potential future risks
 - New section on managing revenues and cashflow
- Updated cost estimates for Central Valley Segment
- Proposed enhancements to the 2019 Program Baseline consistent with the implementation plan
- Potential new federal funding options and updates on proposed federal transportation reauthorization proposals
- Summary of the future capital construction costs for the remaining project sections that comprise the Phase 1 system (San Francisco to Los Angeles/Anaheim)

Chapter 6 – Refocusing the Enterprise on Risk Management

- Additional contingency for risk
- Enhancement of risk management by creating an Enterprise Risk Management program
- Implementation of Stage Gate project development and delivery process
- Updates to other risk issues previously identified

Chapter 7 – Forecasts and Estimates

- Summarizes the range of forecasts and estimates prepared including ridership and revenue forecasts, operating and maintenance forecasts, greenhouse gas reductions

Appendices

This *Revised* Draft 2020 Business Plan meets all statutory requirements including updated capital cost estimates, ridership and revenue forecasts, financial scenarios for different levels of service, anticipated completion of environmental reviews, anticipated federal, state and other funding and a discussion of all reasonably foreseeable risks. These and other analyses are supported by technical reports posted on the Authority's website.

Next Steps

The *Revised* Draft 2020 Business Plan was released for a 30-day comment period on February 9, 2021. Comments may be made online, via mail, and by phone. In addition, the Authority will schedule a hearing to take comments; the date of the hearing will be posted on the Authority's website. Comments will be accepted through the 30-day comment period ending on March 12, 2021.

The Authority is providing the following options for submitting comments:

- Online comment form through the Draft 2020 Business Plan website at: https://www.hsr.ca.gov/about/business_plans/business_plan_2020_comment_form.aspx
- By email at: DraftBP2020@hsr.ca.gov
- By U.S. mail to the Authority: California High-Speed Rail Authority Attn: Draft 2020 Business Plan 770 L Street, Suite 620 MS-1, Sacramento, CA 95814
- Voicemail comment at: (916) 384-9516

All comments received will be provided to and summarized for the Board of Directors. After receipt of public comment, staff will present the 2020 Business Plan (with any recommended changes) to the Board for consideration and approval at the March 25, 2021 Board meeting. Upon Board approval, an after incorporating the Board's direction, the Authority will prepare, publish and submit the final 2020 Business Plan to the California State Legislature on or before April 15, 2021.

Legal Approval

The Revised Draft 2020 Business Plan complies with the requirements of Public Utilities Code Section 185033.

Budget and Fiscal Impact

The *Revised* Draft 2020 Business Plan includes new estimates of revenue and cost for the project. However, any change to the Program Baseline budget would be brought back to the Board through a separate action item.

REVIEWER INFORMATION	
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Original Signed February 4, 2021
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis: Original Signed February 4, 2021

Recommendations

Attachments

- *Revised* Draft 2020 Business Plan *CEO Letter*
- *Revised* Draft 2020 Business Plan PowerPoint presentation