



BOARD POLICY – HSRA24-1135

Capital Cost Estimates Policy for Annual Reports

This policy has been developed to provide guidance to California High-Speed Rail Authority (Authority) staff on the timing and preparation of capital cost updates for annual reports. The Authority received a recommendation from the Authority’s Office of Inspector General (OIG) as part of its January 16, 2024, Letter reviewing the 2023 Project Update Report to create a Board policy that describes the conditions under which the Authority will update cost estimates in its annual reports.

Statutory Requirements

The Authority is responsible for planning, constructing, and operating an intercity high-speed passenger train network (Project) that is fully integrated with the state’s existing intercity transportation services (Public Utilities Code §§ 185030 and 185031). The Authority updates the Legislature and the public on the Project through annual reports required by state law.

Current law requires the Authority to prepare, adopt and submit to the Legislature an updated Business plan by May 1, 2014, and every two years thereafter (Public Utilities Code §§ 185033). A summarized list of the contents for this report, as it relates to this policy, include estimated capital costs for each segment or combination of segments for completing environmental review and initiating and completing construction for each segment or combination of segments of the Phase 1 system.

In addition, current law requires the Authority to provide a Project Update Report to the Legislature by March 1, 2017, and every two years thereafter (Public Utilities Code §§ 185033.5). The requirements for submission of a biennial Project Update Report were updated again in June 2022 by Senate Bill 198. A summarized list of the contents for this report, as it relates to this policy, include estimated and actual capital costs on the Merced to Bakersfield segment, including right-of-way, utilities, civil construction, stations, and other elements necessary to providing passenger service on this corridor.

BACKGROUND

The Authority has historically updated cost estimates for segments under construction every one or two years based on an assessment of cost and consideration of the adequacy of the remaining contingency budget. In addition, the Authority has a long standing practice to update cost estimates for unfunded segments of the Program only after a significant design milestone, such as when an environmental clearance Record-of-Decision for a project segment is reached, as this practice provides stakeholders with relevant updates to project cost estimates once the design and community mitigation measures has reached a level of maturity where associated cost updates benefit from a meaningful project scope definition. This is consistent with federal guidance.

A. Cost Estimate Updates

The Authority shall meet all statutory requirements for annual reports for updating capital costs. Costs will be updated as follows:

1. For projects under construction, the Authority shall update cost estimates in annual plans based on an assessment of cost and consideration of the adequacy of the current contingency budgets. Based on the assessment, cost estimates should be increased whenever the current budget including contingencies is deemed inadequate to complete the work, and costs should be decreased when actual contract expenditures or contract amendments suggest there will be a cost savings.
2. For Phase I segments not under construction, the Authority shall update capital costs at key points of design. Specifically, after the environmental clearance, 30% design, and 100% design milestones.

B. Cost Estimate Methodology

The Authority shall employ industry norms for cost estimating methodologies, including but not limited to, the Association for the Advancement of Cost Engineering classification system (18R-97 Cost Estimate Classification System); Oversight Procedure 40 Risk and Contingency Management (Federal Railroad Administration); and other cost allowance methodologies when necessary to provide credible estimates.

In addition, the Authority shall employ reviews and value engineering techniques in an effort to find optimizations in estimates.

C. Actual Cost Updates

The Authority shall include actual costs from the most recent quarter-end financial reporting for the portfolio of projects, by line item, as presented in its annual plans.

D. Inflation/Escalation

The Authority shall employ a methodology for inflation and escalation estimates that is credible and sourced from appropriate sources, such as Engineering News-Record (ENR) and Construction Cost Index (CCI), the California Department of Finance, the Federal Reserve Bank.