



## **California High-Speed Rail** **Briefing: April 11, 2024 Board Meeting** **Agenda Item #2**

**TO:** Chairman Richards and Board Members

**FROM:** Brian Kelly, Chief Executive Officer

**DATE:** April 11, 2024

**RE:** Consider Adopting 2024 Business Plan and Capital Cost Estimates Policy

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### **Summary**

As required by Public Utilities Code Section 185033, the California High-Speed Rail Authority (Authority) is required to prepare, publish, adopt, and submit an updated Business Plan to the Legislature no later than May 1 of every even year. Statute dictates that at least 60 days prior to submittal to the Legislature, the Draft Business Plan be released for public review and comment.

The Draft 2024 Business Plan was posted on the Authority's website on February 9, opening the 60-day public comment period that concluded on April 9. Staff presented a high-level briefing to the Board of Directors at its February 29 Board Meeting. The Authority Board held a public hearing as part of the February 29 meeting. The public was notified of the hearing date through social media and on the Authority's website. Comments were also made at two legislative hearings that took place on March 11 and 12. Comments were submitted to the Authority online and via email.

After considering all the comments received, staff has proposed edits for the Board's consideration at its April Board meeting. Staff has prepared four documents to help inform the Board's consideration of a revised 2024 Business Plan:

1. The Staff Recommended Edits table, which lays out proposed substantive edits to text;
2. The Errata table, which reflects minor technical corrections to text, such as punctuation, spelling, and exhibit updates and labeling, as well as updates to current data;
3. The Revised Draft 2024 Business Plan, which incorporates both the Staff Recommended Edits and Errata; and
4. The Draft Capital Cost Estimates Policy for Annual Reports, which formalizes the conditions under which the Authority will update cost estimates in its annual reports.

These documents have been posted on the Authority's website. Following Board action, staff will incorporate the Board's direction and prepare a final 2024 Business Plan for the Legislature. The final document will be prepared and submitted to the legislature no later than May 1, 2024.

## **Background**

The Authority has produced business plans since 2012. All business plans provide a snapshot of the most current information about the high-speed rail program at the time of adoption. In requiring an updated plan every two years, the Legislature envisioned that these plans would reflect updated forecasts and estimates, decisions that have been made, and changes that have occurred since the prior business plan. This has been the case with the Authority's previous plans and remains so with the Revised Draft 2024 Business Plan.

### *Key Aspects of the Revised Draft 2024 Business Plan*

The Draft 2024 Business Plan summarizes the progress we have made in the past year, updates information and forecasts that were presented in our 2022 Business Plan and 2023 Project Update Report (PUR) and presents our proposed path forward for delivering the project.

The main takeaways from this report are as follows:

- The Authority was awarded \$3.3 billion in new federal funds to advance the work on the initial operating segment between Merced and Bakersfield, making 2023 a year in which the federal government reinvested in the project and renewed our partnership.
- We are advancing the project consistent with the cost and schedule estimates in the 2023 PUR.
- The Authority advanced important procurements to evolve the project from construction to operations, including the procurements to purchase electrified trains, to design the track and systems, and to bolster engineering services in our rail operations division.
- The first construction package (CP 4) covering 22.5 miles in the Central Valley reached substantial completion.
- The Authority's construction jobs exceeded 12,200 in 2023, and the Authority set a record for the number of daily workers on the job sites.
- The Authority completed 17 structures in 2023.
- The Authority has current and projected funding of \$27 billion to \$30.5 billion assuming various Cap-and-Trade revenue scenarios and has developed an approach to secure additional federal grants.
- The Authority has successfully improved planning, management, and collaboration with stakeholders, resulting in improved property acquisition in the Central Valley, resolution of commercial issues, a settlement with the Burbank-Glendale-Pasadena Airport Authority, stay agreements in Bay Area litigation, and completion of the Semitropic Water Storage District canal realignment in Kern County.
- The Authority exceeded its goals for the percentage of right-of-way parcels acquired and the number of utilities relocated in a single year along the current construction segment.
- The designs for the extensions to Merced and Bakersfield are on schedule, meeting the contract milestones for 2023.
- We continue to be laser-focused on delivering our project in building blocks by adhering to the following priorities to get the Merced – Fresno – Bakersfield system operational between 2030 and 2033:
  - Complete civil construction on the 119 miles under construction in the Central Valley.
  - Extend civil construction work to Merced and Bakersfield for a total of 171 miles.

- Continue to complete environmental review of the remaining project sections between San Francisco and Los Angeles — 422 of 494 miles of the project have already been environmentally cleared.
- Continue our important work with our partners on bookend projects, including the Caltrain electrification project and the LinkUS project.
- Advance geotechnical and design work where the environmental work is completed.
- With the re-investment from our federal partner on this project, it is increasingly urgent to stabilize state funding for the program beyond 2030.

### *Comments and Briefings*

As of April 2, 2024, we received 51 comments and 4 letters of support. Any additional comments made by April 9, 2024, will be provided to the Board, along with any recommended edits based on the comments, if applicable. All comments received during the 60-day comment period that ended April 9 can be found at the following link: <https://hsr.ca.gov/about/high-speed-rail-business-plans/2024-business-plan/draft-2024-business-plan-comments/>

At two legislative hearings, state Legislators heard testimony from the Authority, the Legislative Analyst’s Office, the California High-Speed Rail Legislative Peer Review Group, CALSTA and the Office of the Inspector General, and received comments on the plan from regional agencies/stakeholders, and members of the public. The hearings were held before the following committees:

- Assembly Committee on Transportation – March 11
- Senate Transportation Committee – March 12

The Authority also held briefings with individual legislators and legislative staff. The California High-Speed Rail Legislative Peer Review Group submitted a letter to Legislative leadership, a copy of which is included in the Appendix of the Revised Draft 2022 Business Plan.

### **Prior Board Action**

In April 2022, via Resolution #22-09, the Board adopted the 2022 Business Plan.

### **Discussion**

This Revised Draft 2024 Business Plan reflects updates since the draft was released. It also responds to comments received during the 60-day public review period. Some comments requested clarifications or additional information about the California high-speed rail program as a whole or the draft plan specifically. Some were opposed to the project and/or were critical of the draft plan; others expressed support for the program and/or the draft plan. Some comments were unrelated to the Draft 2024 Business Plan, focusing on other issues including, for example, alignment or environmental issues being evaluated as part of the environmental review process. Those comments are being addressed through other means, namely through the environmental approval process and future Board actions.

The 2024-25 State Budget established an Office of the Inspector General (OIG) for the High-Speed Rail Authority. That office reviewed the Draft Business Plan and provided a number of

recommendations. Many of the updates in the Revised Draft are in response to those recommendations.

### OIG-Recommended Updates

- To address an OIG recommendation, staff added text clarifying that the Authority does not have a specified timeline for project segments outside the Central Valley, as the necessary funding has not yet been secured and the Authority is following a Stated Project Delivery approach.
- To address an OIG recommendation, staff added narrative and a table describing when funding is needed to complete unfunded elements of the Merced to Bakersfield segment in order to stay within the 2030 to 2033 schedule window. Staff also listed potential federal grant funding for each scope element.
- To address an OIG recommendation, staff added a narrative section on the confidence level for funding sources.
- To address an OIG recommendation, the Authority included more detail on private sector financing, including a more refined plan to assess private partnership interest in 2024, in collaboration with the Legislature.
- To address an OIG recommendation, staff included Expenditures in its Capital Cost Estimates tables in Chapter 5.
- To address an OIG recommendation, staff rewrote the Overview of Top Risk Priorities to provide more detail and address mitigation efforts for more of the Authority's identified risks.
- To address an OIG recommendation, the Authority drafted a Board policy describing the conditions under which the Authority updates cost estimates in its annual reports.
  - 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 (ROD) 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 policy formalizes these longstanding internal procedures.
  - See the proposed policy language in the Board documents, and the staff recommendation below that the proposed policy language be adopted.

### Other Updates

- Staff added narrative to clarify the Authority's future Phase 1 and Valley to Valley ridership forecasts.
- Staff added details to explain the sequencing of right-of-way acquisition and construction to reduce risk.
- Staff updated narrative and exhibits in Chapter 3 to reflect February 2024 Cap-and-Trade auction results.
- Staff added a section describing the role of the Development Review Committee.
- Staff updated narrative on Central Valley Service, stating that ridership numbers will be included in the 2025 Project Update Report.

## **Legal Approval**

The final 2024 Business Plan that staff will develop at the Board's direction, after its consideration of the Revised 2024 Business Plan, will comply with the requirements of Public Utilities Code Section 185033. The Capitol Costs Estimates Policy for Annual Reports also complies with all statutory requirements prescribed in statute.

## **Budget and Fiscal Impact**

The Revised Draft 2024 Business Plan includes estimates of revenue and cost for the project and a discussion of risk. Overall cost estimates are unchanged from the 2023 Project Update Report. Pursuant to recommendations from the Inspector General, this item includes consideration of a new policy on Capital Costs Estimates for Annual Reports.

In January 2024, the Board amended the Program Baseline Budget to account for federal grants awarded to the Authority in 2023. The Revised Draft 2024 Business Plan anticipates staff will return to the Board for further budget amendments as additional federal grants are awarded.

Adoption of this item does not itself modify the budget; however, adoption of the new policy would establish Board direction for cost updates in annual reports starting with the 2025 Project Update Report

<b><u>Reviewer Information</u></b>	<b><u>Signature</u></b>
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis:
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis:

## **Recommendations**

Staff recommends that the Board, based on its review of all the comments received and staff presentations at Board meetings, deliberate and direct staff to make any final changes to be reflected in the 2024 Business Plan and approve that plan to be submitted to the Legislature no later than May 1. Staff also recommends that the Board approve the Draft Capital Cost Estimates Policy for Annual Reports attached in the Board materials.

## **Attachments**

- Draft Resolution #HSRA 24-04.
- Revised Draft 2024 Business Plan
- Staff Recommended Edits to the 2024 Business Plan
- 2024 Business Plan Errata and Updates Table
- Draft 2022 Business Plan Comments (February 9 – April 2)
- Draft Capital Cost Estimates Policy for Annual Reports