



## **California High-Speed Rail** **BRIEFING: November 18, 2021 Agenda Item #2**

**TO:** Board Chair Richards and Board Members

**FROM:** Brian Annis, Chief Financial Officer

**DATE:** December 16, 2021

**RE:** Expenditure Authorization Request

### **Recommended Actions**

In accordance with existing Board Policy HSRA11-001, which directs Board approval of the budget, staff recommends Board approval of:

- A total Expenditure Authorization of \$17.937 billion, which is an increase of \$2.301 billion relative to the Program Baseline Budget adopted in June 2020, consisting of: \$1.359 billion to complete the 119-mile Central Valley Segment and for the recent federal grant award for the Wasco State Route 46 Project; and \$942 million in Enhanced Scope for ongoing program wide support – primarily the re-procurement of the Rail Delivery Partner contract, and for advancing design work on the Merced and Bakersfield extensions.

While the Board historically adopts a new Program Baseline Budget after the approval of a new Business Plan, that action has been deferred as discussions continue with the Legislature on a new Proposition 1A bond appropriation. Staff recommends the Board continue to defer adoption of a new Program Baseline Budget pending action by the Legislature on the Proposition 1A appropriation; however, to continue to advance work without delay on specified activities, staff recommends the approval of this Expenditure Authorization.

### **Status of Legislative Actions**

The Authority has a continuous appropriation from the Legislature of Cap-and-Trade funds that allows expenditure of future auction proceeds as those are received.

The Legislature deferred action on a new \$4.2 billion Proposition 1A budget appropriation for construction and project development. The Governor's May Revision Budget has requested this funding as part of a comprehensive transportation investment package, and both high-speed rail and other areas of transportation investments are on hold pending a negotiated budget package. Legislative action on the budget is anticipated in early 2022.

### **Expenditure Authorization Discussion**

The total requested Authorized Expenditures of \$17.937 billion is lower by (\$313) million than the 2020 Business Plan amount of \$18.250 billion. Updates since the approval of the Business Plan have been made for the following:

- Defer approval of \$389 million of Enhanced Scope for Trainsets. Augmentation for this future contract can be considered at a later date by the Board; after the Legislature has appropriated bond funds, or when the Board approves the procurement.
- Reflect the \$76 million Wasco State Route 46 Improvement Project, which includes the new Federal grant of \$24 million awarded in November 2021. This new federal grant and associated scope result in a net increase of \$27 million.

- Increase Construction Package 4 (CP4) by \$48 million for an updated risk assessment. This change maintains the contingency levels for CP 4 at the P70 level. There are no major commercial issues remaining, the scope is fully defined, and schedule risk is therefore reduced. The remaining risks are known third-party related issues and a mitigation plan is in place to address each issue with targeted management efforts.
- Incorporate various adjustments for expired contracts and allocations among line items, which do not change the overall budget.

The Expenditure Authorization reflects a Total Program Budget of \$17.937 billion, an increase of \$2.301 billion from the previous Program Baseline of \$15.636 billion.

This increase of \$2.301 billion includes \$1.359 billion to complete the Central Valley Segment and \$942 million for Enhanced Scope.

The follow items will be monitored and brought back to the Board when the Program Baseline Budget is adopted, as warranted:

- Action by the California State Legislature on the Proposition 1A budget request, accommodating any changes to scope and revenues.
- New grant awards to the Authority from the federal government.
  - The Authority recently submitted two grant applications to the Federal Railroad Administration: Fresno Historic Depot and Selma Workforce Training Center
- Completion of CP 1 and CP 2-3 commercial settlements and other issues.
- The receipt of bids for the Track and Systems contract.
- Longer term, advancement through stage gates for new project segments.

### **Background and Prior Board Action**

At its May 21, 2019 meeting, the Authority’s Board approved the updated Program Baseline of \$15.613 billion. The Program Baseline was updated to reflect the scope, schedule and cost of the Authority’s priorities, including the refined scope of:

- Construction of the Central Valley Segment (Madera to Poplar Avenue), including track and systems; Completion of the Phase 1 environmental approvals; Early “Bookend” investments; and Program-wide support and contingency.

At its June 25, 2020 meeting, the Authority’s Board accepted the updated Program Baseline of \$15.636 billion. The Program Baseline was updated to add:

- Pre-construction activities for those sections where the environmental process is completed. Examples include preliminary engineering, right-of-way mapping, and design advancement.

At its March 25, 2021 meeting the Authority’s Board adopted the 2020 Business Plan. The 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 investment 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 2020 Business Plan lays out priorities as follows:

- Complete construction of the 119-mile Central Valley Segment and lay track, fulfilling 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 in the Los Angeles Basin and the Bay Area – projects valued at more than \$3 billion
- 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.

At its September 23, 2021, meeting, the Authority’s Board adopted the annual budget for FY 2021-2022 of \$2.313 billion for the Capital Budget and \$91.1 million for the Administrative budget (subject to adjustments by the Department of Finance to the enacted State budget). As part of that action, the Authority established a prudent cash reserve of \$300 million for 2021-22 to account for uncertainty in future Cap-and-Trade revenue.

**Legal Approval**

The Legal Office has reviewed this item and has no legal concerns with it.

**Budget and Fiscal Impact**

The Expenditure Authorization reflects programmed and funded projects necessary to progress the Authority’s commitments and priorities. This includes prioritization to complete construction and lay track for the 119-mile Central Valley Segment, advance design work for the Merced and Bakersfield extensions and the Central Valley stations and program wide support. The proposed Expenditure Authorization is reflected below.

<b>Capital Outlay (\$ in millions) - TOTAL PROGRAM EXPENDITURE AUTHORIZATION</b>					
	Program Baseline as of June 2020	Program to Date Expenditures as of October 2021	Expenditure Authorization as of December 2021	\$ Change increase/ (decrease)	% Change increase/ (decrease)
<b>Expenditure Authorization</b>	<b>15,636</b>	<b>8,553</b>	<b>17,937</b>	<b>2,301</b>	<b>14.7%</b>

<b>REVIEWER INFORMATION</b>	<b>SIGNATURE</b>
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Signed on December 9, 2021
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis: Signed on December 9, 2021

**Recommendations**

In accordance with existing Board policies and consistent with the adopted 2020 Business Plan, Staff recommends Board approval of an Expenditure Authorization as follows:

**Expenditure Authorization:**

- Approve total Expenditure Authority of \$17.937 billion, including an increase of \$2.301 billion to the previously adopted Program Baseline Budget, consisting of \$1.359 billion to complete the Central Valley Segment and \$942 million in Enhanced Scope.

Staff will return to the Board to adopt a revised Program Baseline Budget after the Legislature takes action on the Proposition 1A funding request.

**Attachments**

- Exhibit A – Current Program Baseline Cost Summary
- Exhibit B – Updated Expenditure Authorization Cost Summary

**EXHIBIT A – CURRENT PROGRAM BASELINE COST SUMMARY**

<b>Item</b>	<b>Program Baseline – June 2020 (\$ in billions)</b>	<b>Notes</b>
Central Valley Segment (CVS) including Track and Systems	12.366	CVS defined as 119 miles from Madera to Poplar Avenue, including contingencies for each construction package, includes ROD cost for CVS
Phase 1 Environmental (ROD) Balance	0.841	ROD balance for Phase 1 San Francisco to Los Angeles / Anaheim segments excluding CVS
Bookends/Early Investments	1.298	Includes Caltrain Electrification, San Mateo Grade Separations, Rosecrans/Marquardt Grade Separation and LinkUS
Other Funded Scope	1.108	Remaining Program-wide Support, Contingency, Interim Use, Project Reserve, historical Phase 2 expenditures
Bakersfield/Merced Extensions	0.023	Pre-construction activities: examples include preliminary engineering, right-of-way mapping, and design advancement
<b>Total</b>	<b>15.636</b>	

- Baseline dollars are in Year of Expenditure.
- Values have been rounded to the nearest million. Totals may differ due to rounding.

## EXHIBIT B – UPDATED EXPENDITURE AUTHORIZATION COST SUMMARY

Item	(\$ in billions)	Notes
Program Baseline June 2020	15.636	Existing Baseline Budget including contingencies
Baseline Augmentations for Cost Changes and Additional Contingency for Current Scope	1.283	Net cost changes to base scope generally consistent with adopted 2020 Business Plan. Additional adjustments to CP 4 to reflect updated risk for CP 4.
State Route 46 / New Federal RAISE Grant	0.076	With the new \$24 million federal grant awarded in November 2021, this project will be separately tracked.
<b>Subtotal</b>	<b>16.994</b>	
Enhanced Scope to advance Merced to Bakersfield	0.155	To advance design work for the Merced and Bakersfield extensions and the Merced, Fresno, Kings/Tulare and Bakersfield stations
Enhanced Scope Program Wide Support	0.787	Support for all aspects of the program starting in 2022-23. Primarily the re-procurement of Project Delivery Support contract. Other support includes ETO, legal, and financial contracts.
<b>Total</b>	<b>17.937</b>	