

California High-Speed Rail
BRIEFING: March 16, 2023 AGENDA ITEM #2

TO: Board Chair Richards and Board Members

FROM: Brian Annis, Chief Financial Officer
Daniel Horgan, Deputy Chief Operating Officer

DATE: March 16, 2023

RE: Expenditure Authorization Request

Summary

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

- An updated Expenditure Authorization of \$20.010 billion which is an increase of \$2.073 billion from the previously approved Expenditure Authorization of \$17.937 billion.

In August 2022, the Board approved the 2022-23 Fiscal Year Budget. In December 2021, the Board last approved the multi-year budget, when it approved an Expenditure Authorization of \$17.937 billion.

At the time of the 2021 Expenditure Authorization approval, the CEO indicated that we would return to the Board with revised schedules and budgets as portions of the work in Construction Package (CP) 1 and CP 2-3 remained not fully defined due to outstanding commercial issues.

At the same time, discussions on the \$4.2 billion Proposition 1A budget appropriation continued between the Legislature and the Administration, and for these reasons, the adoption of a full Program Baseline Budget was deferred.

With work on the construction packages advancing and most substantial commercial issues resolved, we now have more certainty on completion dates of these projects and are requesting an updated Expenditure Authorization to align with planned completion dates. Those completion dates and next steps were presented to the Board by the CEO at the November 17, 2022 Board meeting, as follows:

1. CP1—Conditionally approved Revised Baseline Schedule with Substantial Completion planned for December 2025. The Probability 70 (P70) completion is November 2026.
2. CP2-3—Conditionally approved Revised Baseline Schedule with Substantial Completion planned for March 2026. The P70 completion is October 2026.
3. CP4 - Substantial Completion planned for the summer of 2023.

We are now following up with a budgetary request that updates the cost and risk contingency accounts to align with the new schedules.

In addition, this request incorporates the \$25 million grant award from the 2022 Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Program for configuration-level design on the

Merced Extension.

Staff anticipates bringing a future Program Baseline Budget to the Board as additional federal grants are received and/or additional work is ready for procurement.

Expenditure Authorization Discussion

The 2022 Business Plan presented our plan to advance the project definition and gain more certainty.

At the June 2022 Board meeting the CEO presented a Construction Update that reflected negotiation progress with our contractors on substantial outstanding commercial issues, increasing our knowledge of required new scope, allowing us to benefit from firmed-up assumptions for revising our schedules and cost estimates—ultimately reducing our risk.

- The following issues were reported as resolved:
 - ✓ CP1 McKinley Avenue
 - ✓ CP1 Belmont Avenue
 - ✓ CP1 Golden State North & South Road Realignment
 - ✓ CP2-3 BNSF Intrusion Protection Barrier (IPB)

At the November 2022 Board meeting the CEO presented an updated status on Construction, which reflected the accomplishment of resolved or substantially resolved substantial commercial issues on both CP1 and CP2-3, and advancements in several other strategic areas to advance this program.

- The following issues were reported as resolved:
 - ✓ CP1 Guideway/IPB Construction for Caltrans SR99 (New Contract Scope)
 - ✓ CP1 Sweeper Package Scope (New Contract Scope)
 - ✓ CP2-3 Hanford Viaduct
 - ✓ CP2-3 Deer Creek Viaduct

Since the November Board meeting, the change order for CP 1 Downtown Fresno Bridges was additionally resolved. This means all major change orders reported in the 2022 Business Plan have been resolved with the exception of: (1) Church Avenue (in CP 1), which should be resolved soon; and (2) Cross Creek (in CP 2-3), which is in arbitration.

- Advancement in other program areas included the following:
 - ✓ Right-of-Way Acquisition—We have achieved over 96% of ROW delivered.
 - ✓ Construction Design Packages—We completed all Authority approved Ready-For-Construction design packages (Total of 163).
 - ✓ Schedules—We completed the Revised Baseline Schedules for CP1 and CP2-3.

While the Program has been advancing, this Nation (as well as the world) has been impacted by: (1) above average inflation (which reached a 40-year high during 2022), (2) supply chain problems, and (3) a global pandemic. Despite all of these universal challenges impacting construction across the world, CP1 and CP2-3 are now advanced to the level of project definition that CP4 was one year ago. As such, those contracts are more fully defined, uncertainty is reduced, and schedule and cost estimates are better.

Cost Update for Construction Package 1

The following has occurred for CP1 since the December 2021 adoption of the Expenditure Authorization, resulting in a budget request to add \$453 million for additional costs, and \$392 million for contingency:

- **Defining Scope**—Substantial outstanding commercial issues have been reduced to only one remaining:
 - *Church Avenue* scope is now fully reconciled with the contractor, and the negotiation phase has begun.
- **Inflation**—40 year high reached in 2022 affecting the cost of change orders.
- **Design Advancement**—Of utility, freight railroad, and other third-party impacts.
- **Delay Claims**—Time impacts for the new December 2025 completion schedule affect the design-build contract and related contracts.
- **Risk**—Additional risk contingency related to above.

Cost Update for Construction Package 2-3

The following has occurred for CP2-3 since the December 2021 adoption of the Expenditure Authorization, resulting in a budget request to add \$687 million for additional costs, and \$463 million for contingency:

- **Defining Scope**—Substantial outstanding commercial issues have been reduced to only one remaining—Cross Creek. Scope is fully reconciled with the contractor and the requested change order is being arbitrated.
- **Inflation**—40 year high reached in 2022 affecting the cost of change orders.
- **Design Advancement**—Of utility, freight railroad, and other third-party impacts.
- **Delay Claims**—Time impacts for the new March 2026 completion schedule affect the design-build contract and related contracts.
- **Risk**—Additional risk contingency related to above.

Cost Update for Construction Package 4

The following has occurred for CP 4 since the December 2021 adoption of the Expenditure Authorization, resulting in a budget request to add \$27 million for additional costs, and \$51 million for contingency:

- **Inflation/Escalation**--has affected the price of these change orders.
- **Utility design, freight railroad, and other third-party issues**--have increased scope and costs.
- **Risk**—Additional risk contingency related to above.

RAISE Grant Award

In August 2022, the United States Department of Transportation announced RAISE grant awards, including \$25 million for the Authority to complete configuration-level design on the Madera to Merced Extension. Also in August 2022, the Board approved the award of the contract to perform this design work. The proposed Expenditure Authorization would incorporate the award of these federal dollars.

Summary of Expenditure Authorization Changes (\$ in millions)

Construction Package (includes Design-Build contracts, and all other CP costs)	Current Budget (based on Dec 2021 Expenditure Authorization)	Additional Cost (Known costs above budget)	Total Contingency (Additional contingency for risk - for all CP scope)	Change (from current budget)	New Total (after requested changes)
CP 1	4,844	453	392	845	5,689
CP 2-3	3,833	687	463	1,150	4,983
CP 4	1,206	27	51	78	1,284
Subtotal CP's	9,883	1,167	906	2,073	11,956
All other approved budget scope	8,054	No budget change, but incorporates the award of the \$25 million RAISE grant for Merced Extension Design			8,054
TOTAL	17,937	1,167	906	2,073	20,010

Background and Prior Board Action

At its December 16, 2021 meeting, the Authority’s Board accepted a total Expenditure Authorization of \$17.937 billion, which was an increase of \$2.301 billion relative to the Program Baseline Budget of \$15.636 billion adopted in June 2020, consisting of: \$1.359 billion for the 119-mile Central Valley Segment and for the 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 new Rail Delivery Partner contract—the Program Delivery Support contract, and for advancing design work on the Merced and Bakersfield extensions.

On April 27, 2022, the Authority’s Board adopted the 2022 Business Plan. In the 2022 Business Plan, the Expenditure Authorization of \$17.937 billion was unchanged.

At its August 17, 2022, meeting, the Authority’s Board adopted the fiscal year 2022-23 Capital Outlay Budget of \$2.303 billion and the Administrative Budget of \$93 million (subject to adjustments by the Department of Finance to the enacted State budget).

Legal Approval

The Legal Office has reviewed this item and finds that it meets the legal requirements for the action sought.

Budget and Fiscal Impact

The updated 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, including funding sources.

Capital Outlay (\$ in millions) - TOTAL PROGRAM EXPENDITURE AUTHORIZATION					
	Expenditure Authorization as of December 2021*	Program to Date Expenditures as of January 2023	Expenditure Authorization as of March 2023	\$ Change increase/ (decrease)	% Change increase/ (decrease)
	A	B	C	(C-A)	(C-A)/A
Bond Fund (Prop 1A) - Project Dev. Phase I	\$564	\$564	\$564	\$0	0.0%
Bond Fund (Prop 1A) - Project Dev. Phase II	\$42	\$42	\$42	\$0	0.0%
Federal Trust Fund (ARRA) - Project Dev	\$466	\$466	\$466	\$0	0.0%
Federal Trust Fund (Brownfields) - Project Dev	\$1	\$0	\$1	\$0	0.0%
Cap and Trade - Project Dev	\$793	\$306	\$768	-\$25	(3.2%)
Federal RAISE Grant - Merced Extension Design	\$0	\$0	\$25	\$25	100.0%
PROJECT DEVELOPMENT SUBTOTAL	\$1,866	\$1,379	\$1,866	\$0	0.0%
Bond Fund (Prop 1A) - Construction	\$2,609	\$2,670	\$6,809	\$4,200	161.0%
Federal Trust Fund (ARRA/FY10) - Construction	\$3,009	\$2,080	\$3,009	\$0	0.0%
Cap and Trade - Construction	\$9,130	\$3,234	\$7,004	-\$2,126	(23.3%)
Federal RAISE Grant - Construction	\$24	\$0	\$24	\$0	0.0%
CONSTRUCTION SUBTOTAL	\$14,772	\$7,985	\$16,846	\$2,073	14.0%
Bond Fund (Prop 1A) - Bookend Projects	\$1,100	\$432	\$1,100	\$0	0.0%
Cap and Trade - Bookend Projects	\$198	\$198	\$198	\$0	0.0%
LOCAL ASSISTANCE SUBTOTAL	\$1,298	\$630	\$1,298	\$0	0.0%
Expenditure Authorization	\$17,937	\$9,993	\$20,010	\$2,073	11.6%

*Includes administrative adjustments between Construction and Project Development

REVIEWER INFORMATION	
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Signed 3/8/2023
Reviewer Name and Title: Alicia Fowler Chief Counsel	Signature verifying legal analysis: Signed 3/8/2023

Recommendations

In accordance with existing Board policies, Staff recommends Board approval of an Expenditure Authorization as follows:

- Approve total Expenditure Authorization of \$20.010 billion, an increase of \$2.073 billion to the previously adopted Expenditure Authorization.

Staff will return to the Board to adopt a full Program Baseline Budget as additional federal grants are received and/or additional work is ready for procurement.

Exhibits

- Exhibit A – December 16, 2021 Total Expenditure Authorization
- Exhibit B – Proposed March 16, 2023 Total Expenditure Authorization

EXHIBIT A – DECEMBER 16, 2021 TOTAL EXPENDITURE AUTHORIZATION

Item	Expenditure Authorization December 2021 (\$ in billions)	Notes
Central Valley Segment (CVS) including Track and Systems	13.649	CVS defined as 119 miles from Madera to Poplar Avenue, including contingencies for each construction package, includes ROD cost for CVS
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.
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	1.895	Remaining Program-wide Support, Contingency, Interim Use, Project Reserve, historical Phase 2 expenditures
Bakersfield/Merced Extensions	0.178	Pre-construction activities: examples include preliminary engineering, right-of-way mapping, and design advancement
Total	17.937	

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

EXHIBIT B – PROPOSED MARCH 16, 2023 TOTAL EXPENDITURE AUTHORIZATION

Item	Expenditure Authorization March 2023 (\$ in billions)	Notes
Expenditure Authorization December 2021	17.937	Existing Expenditure Authorization including contingencies
CP 1	0.845	Includes Design-Build, PCM, and other scope for CP1 to account for Additional Known Costs and Risk to align with Revised Baseline Schedule
CP 2-3	1.150	Includes Design-Build, PCM, and other scope for CP2-3 to account for Additional Known Costs and Risk to align with Revised Baseline Schedule
CP 4	.078	Includes Design-Build, PCM, and other scope for CP4 to account for Additional Known Costs and Risk
RAISE GRANT	0	No Budget Change, incorporates \$25M in grant funds
Total	20.010	New Total Expenditure Authorization

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