



BRIEFING: MARCH 20, 2018, BOARD MEETING AGENDA ITEM #2

TO: Chairman Richard and Board Members

FROM: Brian Kelly, Chief Executive Officer

DATE: March 20, 2018

RE: Report on the Draft 2018 Business Plan

Background

The California High-Speed Rail Authority (Authority) is required by Public Utilities Code Section 185033 to prepare, publish, adopt, and submit an updated Business Plan to the Legislature on May 1. Statute also dictates that, at least 60 days prior to submittal to the Legislature, the Authority must publish a draft Business Plan for public review and comment.

In a letter to California Senate and Assembly leaders, Dan Richard, Chair of the California High-Speed Rail Authority Board of Directors, requested that the publication of the Draft and Final Business Plans be extended by 30 days to March 9 and June 1 respectively. This delay was recommended by the Legislative Peer Review Group due to the recent engagement of the Early Train Operator and the recent appointments of a new Chief Executive Officer and Chief Operating Officer in February 2018. The extension allowed time to incorporate input by the Early Train Operator and to afford new executive team members reasonable time to assess and shape the plan we will be charged with implementing.

The Draft 2018 Business Plan was issued on March 9, 2018, by posting it on the Authority's website, thus opening the public comment period. The 60-day comment period runs through May 7, 2018. Staff intends to present the plan and the comments received from the public to the Board for approval at the May 15 meeting.

Previous Business Plans

In April 2016, the Authority adopted the 2016 Business Plan, which built on and updated the 2014 Business Plan, implementing the requirements of SB 1029. The 2016 Business Plan set a new direction for implementing the system, making the Authority's intent to deliver an initial operational high-speed line between the Silicon Valley (San Jose) and the Central Valley (Poplar Avenue, north of Bakersfield). It identified Bakersfield, Merced and initial service into San Francisco as high priority extensions to the initial operating line. In addition, it reiterated the Authority's commitment to make strategic, concurrent investments in Northern and Southern California in the Caltrain and Burbank to Anaheim corridors respectively.

The Authority's 2014 Business Plan built on and updated the 2012 Business Plan. It provided updated estimates and forecasts that incorporated feedback from external reviewers including the United States Government Accountability Office's recommendation that risk analysis be applied to the Authority's forecasts.

The Authority's 2012 Business Plan served as a foundational document for how the system will be implemented. Specifically, it laid out the concept of delivering the Phase 1 system in a series of phases and through a "blended" strategy where high-speed rail is developed in concert with other state, regional and local rail investments, as part of a broader statewide rail modernization program.

All of the Authority's previous Business Plans provided a snapshot in time of the most current information at the time of adoption. In requiring an updated plan every two years, the Legislature envisioned that these plans would adapt to changing circumstances and evolve over time. This has been the case with the Authority's previous plans and remains so with the Draft 2018 Business Plan.

Discussion

The Draft 2018 Business Plan contains a transparent discussion of the challenges facing the high-speed rail program today. It also outlines the new ways of doing business needed to address those challenges, including important organizational improvements based on lessons learned to date that will complete the Authority's transition from a planning organization to a project delivery organization. To that end, the draft plan also includes information on the Authority's new management and organizational structures, the assignment of costs to risks identified in prior plans, and a financing strategy that aligns the timing of Cap-and-Trade funds so that the project can be delivered in a manner that provides benefits to Californians at the earliest possible time.

In addition to these new ways of doing business, the Authority remains focused on three key principles and objectives identified in the 2016 Business Plan:

- Initiate high-speed rail service in California as soon as possible.
- Make strategic, concurrent investments that will be linked together 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 Draft 2018 Business Plan presents a vision for delivering high-speed rail in California which involves implementing a series of highly complex, integrated megaprojects in the face of challenges that projects around the world of similar magnitude have faced and successfully addressed. These challenges relate primarily to cost, schedule, funding and project management.

In this draft plan, we show that our cost estimates have increased and that we need greater funding certainty in order to fully deliver the initial Silicon Valley to Central Valley Line. It acknowledges the project's challenges and presents a strategy to confront and manage these and future challenges as we work to deliver the project. It reflects the Authority's commitment to

apply lessons learned and make the organizational improvements necessary to deliver this system. It also underscores the goal to initiate high-speed rail service between the Silicon Valley and the Central Valley as soon as possible, while completing environmental work and making important investments in Southern California.

Specifically, the Draft 2018 Business Plan lays out an implementation strategy that proposes to invest the funding that is available to us and to proceed as follows:

1. Meet commitments to our federal partners by constructing the 119-mile Central Valley Segment and completing the environmental review for all project segments statewide (Merced/San Francisco-Los Angeles/Anaheim) by 2022.
2. Extend the Silicon Valley to Central Valley Line to run from San Francisco to Bakersfield, a line that generates the highest ridership and revenue and that has the very strong commercial viability.
3. On our path toward completing the Silicon Valley to Central Valley Line, invest funds to develop 224 miles of high-speed rail ready infrastructure on two lines, one in the Central Valley (Bakersfield to Madera) and one in the Silicon Valley/Bay Area (between Gilroy and San Jose/San Francisco). Doing this will provide early benefits by reducing travel times on existing passenger rail systems, expand clean electrified rail service, and prepare for testing and potential high-speed rail operations in these two corridors by 2026-27.
4. Complete project development work to refine the design, scope and cost for the Pacheco Pass tunnels that are the critical link between the Central Valley and the Silicon Valley. We will also conduct important early works, such as geotechnical analysis, to reduce uncertainty and further “de-risk” the construction of the tunnels. As we do so, we will engage private and public sector expertise to examine and refine design options, optimize operational efficiency and limit costs.
5. Invest remaining Proposition 1A bookend funds as a full partner in vital, high-priority projects in Southern California along the Burbank to Anaheim corridor that improve freight, local and regional passenger rail service, enhance transit connections, improve safety, and accommodate the introduction of high-speed rail service in Southern California. These include investments in the Rosecrans/Marquardt Grade Separation Project and the Los Angeles Union Station Development project.
6. Leverage state funding committed to the project to pursue additional private and federal funding or financing to invest in the development of the high-speed rail system statewide.

This implementation strategy is designed to provide early mobility and environmental benefits and to build upon the economic dividends that the investments we have already made are yielding for the state and its citizens.

The Draft Business Plan includes multiple, in-depth sections and technical supporting documents that lay out the Authority's business model for delivering and operating the system; the planned implementation strategy described above; updated capital cost estimates and funding and financing status; forecasts for ridership/revenue and operating costs; and, the risks that the program faces, along with the Authority's strategies for managing and mitigating those risks.

Next Steps

The Draft 2018 Business Plan was released for a 60-day comment period on March 9, 2018. Comments may be made online, via USPS, and at the regularly scheduled board meetings on March 20 and April 17, which will constitute the required public hearing on the Draft 2018 Business Plan. Comments received during the 60-day period prior to publication become a part of the public record associated with the Business Plan.

The Authority is providing the following options for submitting comments:

- Online comment form through the Draft 2018 Business Plan website at: http://hsr.ca.gov/About/Business_Plans/Draft_2018_Business_Plan_Comments.html By email at: 2018businessplancomments@hsr.ca.gov
- By U.S. mail to the Authority:
 - California High-Speed Rail Authority
 - Attn: Draft 2018 Business Plan
 - 770 L Street, Suite 620 MS-1, Sacramento, CA 95814
 - Voicemail comment at: (916) 384-9516
 - Provide public comment at a Board of Directors Meeting being held on March 20 (Sacramento) and April 17 (Los Angeles).

All comments received will be provided to and summarized for the Board. After receipt of public comment, staff will present the 2018 Business Plan (with any recommended changes) to the Board for approval at the May 15 Board meeting. Upon Board approval, and after incorporating the Board's direction, the Authority will prepare, publish and submit the final 2018 Business Plan to the California State Legislature on or before June 1.

Recommendations

This item is informational only; staff does not recommend any Board action at this time.

Attachments

– Draft 2018 Business Plan ([link](#))