



BRIEFING: JUNE 19, 2018 BOARD MEETING AGENDA ITEM #4

TO: Chairman Richard and Board Members

FROM: Russell Fong, Chief Financial Officer
Roy Hill, Chief Program Officer

DATE: June 19, 2018

RE: Consider Accepting the Program Baseline (Cost, Schedule and Scope), Approving Adjustments to Existing Contracts, and Accepting the 2018-19 Fiscal Year Budget Necessary to Implement the 2018 Business Plan

Summary of Recommended Action

At its May 15, 2018 meeting the California High-Speed Rail Authority (Authority) Board adopted the 2018 Business Plan. The plan was subsequently submitted to the California State Legislature on May 25, 2018 and reemphasized the agency's intent to:

- 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 become available.

The 2018 Business Plan provides updated cost estimates and an implementation plan for completing the Silicon Valley to Central Valley Line. This presentation provides a review of the scope, schedule and cost assumptions to deliver the program as outlined in the 2018 Business Plan. These details comprise the program baseline. This presentation also presents the proposed Fiscal Year 2018-19 budget, the Total Program Budget, and contract changes necessary to support the policy framework and implementation plan outlined in the 2018 Business Plan.

Staff is requesting the following actions be taken by the Board to set the baseline from which staff will manage to and report on going forward:

Program Baseline Acceptance

- **Scope:** Review the representative scope used as a basis for determining cost estimates and schedules presented in the 2018 Business Plan. For purposes of establishing the baseline, assumed alignments were used for environmental sections without an existing identified preferred alignment, but this does not represent a Board action on a preferred alternative for those project sections. These alignments are detailed in the 2018 Business Plan Capital Cost Basis of Estimate Report Technical Memo adopted on May 15 (attached).

- **Schedule:** Review the assumed baseline schedule based on the projected service dates indicated in the 2018 Business Plan. **Exhibit A** provides a schedule summary which includes revised environmental records of decision and makes assumptions related to future procurements to meet planned service dates. It is understood that these dates are based upon funding assumptions laid out in the 2018 Business Plan and other related work will be required to further evaluate and refine early interim service requirements.
- **Costs:** Review the baseline costs as presented in **Exhibit B**. These costs are summarized for purposes of discussion and are based upon the phases of implementation outlined in the 2018 Business Plan. These costs represent the multi-year investments necessary to complete the delivery of the Silicon Valley to Central Valley Line.

Contract Amendments

- Approval to amend for time and/or funding nine (9) existing contracts necessary to align with the FY18/19 budget and schedules presented above. These are detailed in **Exhibit C**.

Total Program Budget and FY 18/19 Budget Acceptance

- In accordance with existing Board policies, staff is also presenting the Total Program Budget and the FY 18/19 Budget that aligns spending for the next year with expected program expenditures and related existing and anticipated new contracts. A summary of the Total Program Budget and FY 18/19 Budget are provided in **Exhibits D and E** for acceptance. In addition, the Executive (Administrative) Budget for FY 18/19 is included as **Exhibits F, G and H**.

Background

The Silicon Valley to Central Valley baseline was developed to reflect the 2018 Business Plan priorities to:

1. Meet commitments to federal partners by constructing the 119-mile Central Valley Segment and completing the environmental review for all project segments statewide (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 has strong commercial viability.
3. 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) to realize 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.

This baseline uses assumptions and estimates that are detailed in the 2018 Business Plan Capital Cost Basis of Estimate Report Technical Memo. The schedule was developed in coordination with Authority staff across functional areas to prioritize and sequence the work required to achieve the 2018 Business Plan milestones. Finally, the costs are based on an estimate-at-complete evaluation for all existing contacts and future procurements to deliver the defined scope.

Prior Board Action

The acceptance of the Program Baseline and FY 18-19 Budget and approval of amendments to existing contracts is necessary to implement the Board-adopted 2018 Business Plan. The adoption of the 2018 Business Plan was supported by the technical memorandum Capital Cost Basis of Estimate Report.

Prior actions related to execution of the major contracts to be amended are summarized in **Exhibit C**.

Discussion

The baseline outlines the “what” and “when” for the high-speed rail program. It includes the scope, schedule, costs and budget to deliver the priorities set in the 2018 Business Plan. It is driven by expected environmental Record of Decision dates and identifies key milestones for future procurements leading to operations. In addition, it contains an initial risk assessment which will require further refinement during baseline updates and establishment of a structured risk mitigation management process.

This baseline includes costs associated with the construction of the Silicon Valley to Central Valley Line and all Phase 1 planning and environmental documentation costs required by the grants awarded to the Authority by the Federal Railroad Administration. It does not include a commercial procurement strategy or prescriptive contract recommendations. This baseline provides a foundation for advancing the program and establishes a structured process for evaluating and managing changes to the scope, schedule and costs of the program.

Implementation of the baseline is an important step to improve program delivery management and enable greater visibility on how future decisions may impact program costs and schedule. Development of the baseline involved the creation of a centralized database that captures all spending to date, schedules and project budgets. From this, staff will develop refined reporting that will provide trends related to actual expenditure versus plan and future forecast; schedule critical path elements; and risk/contingency management efforts. Appropriate reporting and approvals for these next steps will be presented at future Board meetings.

Management Moving Forward

The Authority’s focus is delivering a functional, certified and commercially viable high-speed rail system under a stringent oversight philosophy of stewardship, transparency and accountability. The associated updated baseline cost estimate and schedule require a different way of doing business. Staff is incorporating lessons learned into revised strategies, organizational approaches to program delivery, and improved business processes, while recognizing the necessity for ongoing strategic planning and risk mitigation.

The risk and complexity associated with delivering this program of mega-projects requires the Authority to change the way it manages the program, makes project-level decisions, and plans for future construction. In doing so, the Authority must incorporate strategic planning into its daily business acumen to guide prudent construction and operations decisions. The management team understands this challenge and has reviewed the organization’s structure, strengthened oversight functions and initiated new business processes to support improved decision-making and risk management.

The Authority is focused on evolving the change management process to better support the decision making through the agency governance process. This begins by enhancing the efforts of the **Change Control Committee (CCC)** to evaluate all Program/Project changes as well as required individual contract changes.

The full impact of any change to the Program Baseline will be evaluated for impacts to baseline scope, schedule, costs, budget, commercial implications, legal requirements, and potential claims that may occur, for complete assessment of the proposed change. The CCC will review proposed Program/Project changes and will include review of:

- Program contingency allocation of project contingency to contracts
- Contingency draws over the 75% cumulative utilization of project and contract contingency

This change control process will enhance the internal review of the two program committees that provide internal decision-making rigor, accountability and transparency for major decisions. The **Program Delivery Committee (PDC)**, chaired by the Chief Operating Officer and Chief Program Officer, has the primary responsibility for the delivery of the program and is accountable for overall capital program scope, schedule, costs and adherence to the budget. The committee reviews programmatic changes that then require Business Oversight Committee review, and ultimate Chief Executive Officer (CEO) or Board approval.

The **Business Oversight Committee (BOC)**, chaired by the Chief Financial Officer, provides a financial, commercial and fiscal review. The committee assesses and reviews requests and/or proposed commitments relating to public funds in accordance with 2018 Business Plan objectives, approved annual budgets, program priorities, and funding availability with a focus on the future enterprise value of an operational business.

These committees, which include broad representation across the agency, forward recommendations to the CEO and/or the Board for final resolution and decisions.

Any proposed changes will be subject to a comprehensive review through a highly-structured process requiring consideration of the full effects of a proposed change. This includes any increases to level of effort, or increased costs in one area versus savings in another, potential effects on schedule and understanding all potential tradeoffs before a decision is made. This process has already generated better inter-departmental interaction, greater understanding of the effects of various decisions, and earlier identification of issues that need to be resolved.

Legal Approval

The Legal Office has reviewed the contents of the Program Baseline, FY 18-19 Budget and the recommended contract amendments and has concluded that the Board has the legal authority to approve those contract amendments and accept the baseline and budget.

Budget and Fiscal Impact

The updated baseline reflects a FY18/19 Total Program Budget of \$13.7 billion, an increase of \$3.9 billion or a 41 percent increase over the FY17/18 Total Program Budget and consistent with the costs outlined in the 2018 Business Plan. The baseline also includes a \$1.8 billion FY18/19 budget. These revised budgets reflect the programmed and funded projects necessary to continue the priorities as set forth in the 2018 Business Plan. The updated baseline prioritizes the ARRA Grant Scope of work, completing the Central Valley Segment, and Bookend Corridor projects, which is consistent with the previous methodologies for the Capital Outlay Report. In addition, the FY18/19 Executive (Administrative Budget) is reflected below.

Capital Outlay Budget (\$ in millions) - TOTAL PROGRAM BUDGET							
Program	Program Budget as of 2016-17	Program to Date Expenditures as of June-2017	Program Budget as of 2017-18	Program to Date Expenditures as of April 2018	Program Budget as of 2018-19	FY17-18 to 18-19 Budget	
						\$ Change increase/ (decrease)	% Change increase/ (decrease)
Total Budget	\$ 9,664.3	\$ 3,440.4	\$ 9,680.4	\$ 4,339.2	\$ 13,664.5	\$ 3,984.1	41.2%

Capital Outlay Budget (\$ in millions) - FISCAL YEAR 2018-2019 PROGRAM BUDGET							
FY2016-17 Budget	FY2016-17 Actual Expenditures as of June-2017	FY2017-18 Budget	FY2017-18 YTD Expenditures as of April 2018	FY2018-19 Budget	FY17-18 to FY18-19 Budget		
					\$ Change increase/ (decrease)	% Change increase/ (decrease)	
Total Budget	\$ 2,211.5	\$ 1,246.2	\$ 1,637.6	\$ 898.8	\$ 1,786.8	\$ 149.2	9.1%

Administrative Budget (\$ in thousands) - FISCAL YEAR 2018-2019 BUDGET							
FY2016-17 Budget	FY2016-17 Actual Expenditures June-2017	FY2017-18 Budget	FY2017-18 YTD Expenditures as of April-2017	FY2018-19 Budget	FY17-18 to FY18-19 Budget		
					\$ Change increase/ (decrease)	% Change increase/ (decrease)	
Total Budget	\$ 42,783	\$ 34,429	\$ 45,367	\$ 28,968	\$ 45,393	\$ 26	0.1%
TOTAL POSITIONS	226	226	226	226	-	0.0%	

This staff recommendation also proposes that the Board amend nine (9) existing contracts reflecting a total increase of \$142.7 million and appropriate term adjustments as shown. Each contract amendment is needed to implement priorities as set forth in the 2018 Business Plan and has been confirmed to be included in the baseline by the BOC. The two tables below reflect the new Total Program Budget for each contract and the budget allocation for FY18/19.

2018-19 Fiscal Year Budget Impact

The table below represents the fiscal year snapshot of each contract's allocated budget for FY18/19.

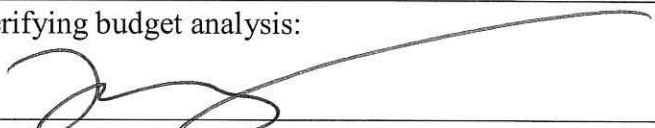
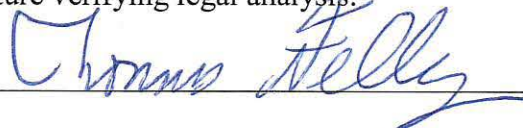
Contract Name	Contract/ Activity Number	2018-19FY Budget Allocation	Funding Source
HNTB Corporation	HSR15-01	\$18,000,000	State funding
Union Pacific Railroad	HSR14-63	\$15,000,000	State funding
HNTB	HSR15-34	\$19,379,656	State funding
Parsons Transportation Group	HSR08-05	\$200,000	State funding
Sener	HSR14-42	\$6,600,000	State funding
STV	HSR14-39	\$12,167,169	State funding
TY Lin	HSR13-44	\$7,200,000	State funding
Westervelt Ecological Services	HSR14-56	\$15,000,000	State funding
CA Department of Conservation	HSR12-30	\$14,867,243	State funding

Total Program Budget Impact

This table represents the change to the total contract value considered in this memo.

Contract Name	Contract/ Activity Number	Current Total Program Contract/Activity Budget	Budget Change	Funding Source
HNTB Corporation	HSR15-01	\$30,064,017	\$12,800,000	State funding
Union Pacific Railroad	HSR14-63	\$39,400,000	\$30,000,000	State funding
HNTB	HSR15-34	\$46,000,000	\$29,600,000	State funding
Parsons Transportation Group	HSR08-05	\$80,240,000	\$400,000	State funding
Sener	HSR14-42	\$56,000,000	\$8,901,223	State funding
STV	HSR14-39	\$51,000,000	\$12,483,097	State funding
TY Lin	HSR13-44	\$65,200,000	\$7,458,068	State funding
Westervelt Ecological Services	HSR14-56	\$48,895,000	\$25,060,943	State funding
CA Department of Conservation	HSR12-30	\$19,993,339	\$16,000,000	State funding

Detailed descriptions of each request are included in **Exhibit C**.

REVIEWER INFORMATION	
Reviewer Name and Title: Russell Fong Chief Financial Officer	Signature verifying budget analysis: 
Reviewer Name and Title: Tom Fellenz Chief Counsel	Signature verifying legal analysis: 

Recommendations

Staff recommends Board acceptance of the Program Baseline based upon the scope, schedule and costs outlined. In addition, staff also recommends the Board authorize the CEO to execute the identified contract changes as specified in **Exhibit C**. Finally, staff requests Board acceptance of the Program and FY 18/19 Budget. Cumulatively, these actions are necessary to implement the delivery strategy outlined in the 2018 Business Plan.

Attachments

- Capital Cost Basis of Estimate Report Technical Memo
- Exhibit A – Baseline Schedule
- Exhibit B – Baseline Cost Summary
- Exhibit C – Summary of Contract Amendments and prior Board actions.
- Exhibit D – Program Budget
- Exhibit E – FY 18/19 Budget
- Exhibit F,G & H – Executive (Administrative) Budget for FY 18/19
- Draft Resolution #HSRA 18-11 Contract Amendments Approval