



2018 Business Plan

September 19, 2017

The purpose of today's briefing is to review:

- Statutory requirements for Business Plans
- Prior Business Plans
- Guiding principles and core values embodied in 2016 Business Plan
- Key events since the 2016 Business Plan
- Timeline for developing the Draft and Final 2018 Business Plan

Business Plan Requirements

- The Authority is required to prepare, publish, adopt, and submit to the Legislature a Business Plan every two years
- The Business Plan is due on May 1 of every even year
- Before submitting the Plan to the Legislature, the Authority must publish a draft, hold a public hearing, and have a 60-day public comment period
- California Public Utilities Code Section 185033 outlines a series of required elements for the Business Plan

The Business Plan must include:

- Description of the service to be provided
- Proposed environmental and construction schedules
- Capital cost estimates
- Ridership and revenue forecasts, operations and maintenance cost estimates
- Breakeven analysis (to comply with Prop 1A)
- Sources of funding the Authority intends to access and any written agreements with public or private entities to fund system components
- Public-private development strategies for delivering Phase I system
- All reasonably foreseeable risks that the project may encounter and how it intends to manage those risks

Evolution of Business Plans: 2012 Business Plan

- ▶ Laid out 3-stage, phased implementation strategy – Initial Operating Segment (IOS), Bay to Basin, and Phase I
 - In Draft 2012 Business Plan, Board selected two potential initial operating segments:
 - IOS North – San Jose to Bakersfield
 - IOS South – Merced to San Fernando Valley
 - IOS-South was identified as the IOS in the Final 2012 Business Plan
- ▶ Created foundation for “blended” strategy – integration of high-speed trains with existing intercity/regional rail systems via coordinated infrastructure and coordinated operations (scheduling, ticketing, etc.)
- ▶ Put high-speed rail in context of statewide rail modernization
- ▶ Updated ridership/revenue forecasts and cost estimates
- ▶ Phase I capital cost estimate - \$68.4B (year of expenditure dollars)
- ▶ Authority had sufficient committed funding for Central Valley (Proposition IA and federal funds)
- ▶ Created initial business model framework
- ▶ Provided basis for Legislature to appropriate Proposition IA funds (SB 1029)

Evolution of Business Plans: 2014 Business Plan

- Reported on progress since 2012 Business Plan
- Same 3-stage phased implementation (IOS, Bay to Basin, Phase I)
- Updated forecasts based on rigorous external reviews by the International Union of Railways (IUC), Government Accountability Office (GAO), and others
- Introduced risk-based breakeven analysis (Monte Carlo) to show financial viability
- Phase I capital cost estimate - \$67.6B (year of expenditure dollars)
- Authority had sufficient committed funding for Central Valley (Proposition 1A and federal funds)
- Emphasized importance of Cap and Trade funds for advancing the program (funding for high-speed rail was proposed in Governor's 2014-15 Proposed Budget)

Evolution of Business Plans: 2016 Business Plan

- ▶ Updated forecasts and estimates
- ▶ Phase I capital cost estimate - \$64.2B (year of expenditure dollars)
- ▶ Updated funding plan based on continuous appropriation of Cap and Trade by Legislature (SB 862)
- ▶ Projected \$20.8B potentially available to fund and finance an Initial Operating Segment (assuming \$500M/year in Cap and Trade funds through 2050)
- ▶ Changed implementation strategy to deliver IOS-North first
- ▶ Emphasized commitment to make concurrent investments in Burbank to Los Angeles corridor in partnership with stakeholders
- ▶ Re-emphasized commitment to seek additional federal funds



2016 Business Plan – Principles & Values

Guiding Principles

- ▶ **Fulfill Proposition 1A** commitment to provide California a true high-speed rail system
- ▶ Evaluate new opportunities – and adapt to changing circumstances – to **deliver the system as quickly and efficiently as possible**
- ▶ Reduce costs and construction time by using a **blended implementation strategies** where appropriate
- ▶ **Match projects with available funding** and deliver them through appropriate business models
- ▶ Advance other **strategic early investments** in collaboration with our partners

Core Values

- ▶ Implement the highest levels of **safety and security** measures
- ▶ Deliver high-speed rail as a **partnership** between the public sector and the private sector
- ▶ Create **training and employment opportunities** for Californians, including disadvantaged workers
- ▶ Maintain our **commitment to small and disadvantaged businesses** making major contributions to building the project
- ▶ Support **sustainable** land use and economic development around high-speed rail stations

Key events since the 2016 Business Plan

- Construction progress - 14 active construction sites over 119 miles
- Design and environmental clearance advanced
- Funding Plans approved for San Francisco to San Jose Peninsula Segment, Rosecrans/Marquardt Grade Separation Project and Central Valley Segment -- unlocking Proposition 1A funds
- Initiated procurement of Early Train Operator
- *Economic Impact Report* showed \$2.3 billion in public investment yielded \$3.5 - \$4 billion in economic benefit over ten year period (2006-2016)
- Anticipation that \$2.5 billion of American Recovery and Reinvestment Act funds fully expended
- AB 398 passed extending Cap and Trade through 2030

Developing the Draft & Final 2018 Business Plan

Summer/Fall – Updating Forecasts and Estimates

- Capital and lifecycle costs
- Operating and maintenance costs
- Ridership and revenue forecasts
- Initial drafting of plan

December/January – Finalizing Forecasts and Preparing Draft Plan

- Cash flow, breakeven, monetization, greenhouse gas emissions
- Continued drafting of Business Plan narrative and supporting technical memos

February – Issue Draft 2018 Business Plan for Public Comment

- Possible legislative hearings

February-April – Seek Public Comment on Draft 2018 Business Plan

- Receive and review all public and stakeholder comments

April – Board Action and Direction

- Prepare Errata Sheet for Board with “technical corrections”
- Prepare Staff Recommended Changes for Board consideration – based on public and stakeholder comments
- Board action and direction to staff for preparing final Business Plan

May 1 – Submit Final 2018 Business Plan to Legislature