

Briefing: MAY 21, 2019 BOARD MEETING AGENDA ITEM #2

TO: Brian P. Kelly, Chief Executive Officer

FROM: Russ Fong/Roy Hill

RE: Updated Program Baseline – May 2019

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 reemphasized the Authority'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.

To deliver the program as outlined in the 2018 Business Plan, a program baseline was developed that included the details of the scope, schedule and cost assumptions to deliver the plan. At its June 19, 2018 meeting, the Authority Board accepted the program baseline based upon the included scope, schedule and costs.

The June 2018 program baseline included the scope necessary to complete the Silicon Valley to Central Valley Line. The funded scope elements included the Central Valley Section, completion of the Phase 1 environmental approvals, "Bookend" early investments, and program-wide support and contingency. The estimated cost of the funded scope elements was \$13.7 billion.

On May 1, 2019, the Authority submitted the 2019 Project Update Report to update the California Legislature on the development and implementation of intercity high-speed rail service. The Project Update Report re-emphasized the Authority's commitment to deliver the funded scope of the program baseline.

As project development progressed, the Authority refined the scope, capital investment and schedule requirements detailed in the program baseline, including updating the program estimate at completion (EAC) with a detailed "bottoms-up" Monte Carlo risk analysis. This analysis updated the estimated cost of the funded scope elements to \$15.6 billion.

Staff is requesting the following three actions be taken by the Board to update the June 2018 program baseline, from which staff will manage to and provide frequent reporting to the Board:

Program Baseline Board Acceptance

- **Scope:** This request is consistent with the program baseline scope, approved in the June 19, 2018 Board meeting.

- **Schedule:** Review the updated program baseline schedule based on the projected service dates for the meeting the Authority's commitments. **Exhibit A - Updated Program Baseline Schedule Overview** provides a schedule summary which includes revised environmental records of decision and makes assumptions related to future procurements to meet planned service dates.
- **Costs:** Review the updated program baseline costs as presented in **Exhibit B - Updated Program Baseline Cost Summary**. These costs are summarized for purposes of discussion and are based upon the phases of implementation outlined in the **Exhibit A**.
- In accordance with existing Board policies, staff is also presenting the Total Program Budget and the FY19/20 Budget that aligns spending for the next year with expected program expenditures and related existing and anticipated new contracts for Board acceptance as part of the program baseline. A summary of the Total Program Budget and FY 19/20 Budget are provided in **Exhibit D - Capital Outlay and Expenditures Report—Total Program** and **Exhibit E - Capital Outlay and Expenditures Report—Fiscal Year 19/20** for acceptance. In addition, the Executive (Administrative) Budget for FY 19/20 is included as **Exhibits F, G and H**.

Board Delegation of Authority to Manage Contingencies within the Program Baseline with F&A Oversight

In addition, staff is requesting Board delegated authority to the Chief Executive Officer (CEO) to manage project contingencies included in the updated program baseline, with required reporting to the F&A Committee at its regular meetings or upon request.

Once authorized, the CEO will be delegated to transfer project contingency, as contained within the updated program baseline and developed through a risk-informed Monte Carlo simulation to a "P70" confidence level, to existing contracts for expenditures. The CEO's delegation to approve and execute new contracts up to \$25 million without Board approval for any action consistent with the Baseline and Program Budgets, as approved by the *Authority's Board through Resolution #HSRA 18-15*, will remain the same.

Board Approval for Contract Amendments

- Board approval is requested to amend for time and/or funding two(2) existing contracts necessary to align with the FY 19/20 budget and schedules presented above. These are detailed in **Exhibit C - Baseline Contract Amendments and Previous Board Actions**.

Background

The 2019 Project Update Report continued to emphasize the Authority's long-term priorities 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 updated program baseline was updated to reflect the 2019 Project Update Report 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
- "Bookend" early investments
- Program-wide support and contingency

This updated program 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 schedule milestones. Finally, the costs are based on an estimate-at-complete evaluation for all existing contracts and future contracts to deliver the refined scope for 1) Madera to Poplar Avenue construction, 2) Phase 1 environmental approvals, 3) bookend investments and 4) program-wide support and contingency. Some of the future contracts will be within the CEO Board delegated authority and come future contracts will require Board approval including the procurement phase of some future contracts.

Related to the management of the updated program baseline, in August 2013 the Board authorized the CEO to manage approved contract contingency balances for construction, design-build and design-build-operate contracts, with required reporting to the Finance & Audit Committee. To access contingency greater than the contract contingency balance (at the project or program level), Board approval is required.

In the development of the updated program baseline, the refined cost estimates and schedules were developed through a risk-informed Monte Carlo simulation to a “P70” confidence level. Once the Board approves the updated program baseline, this enhanced contingency will reside at the project level (projects are comprised of numerous contracts).

Prior Board Action

In June 2018 the Authority Board accepted the program baseline and the fiscal year 2018-19 budget, and approved amendments to existing contracts necessary to implement the Board-adopted *2018 Business Plan*.

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

In August 2013, in accordance with Resolution #HSRA 13-20, the Authority Board authorized the CEO to manage the Finance and Audit Committee’s approved contract contingency balance for construction, design-build and design-build-operate contracts.

In August 2018, in accordance with *Resolution #HSRA 18-15*, the Authority Board authorized an increase to the CEO’s delegated contracting authority from \$5 million to \$25 million for Section A, B, and C of Board policy *HSRA11-001*.

Discussion

The updated program baseline outlines the "what" and "when" for the high-speed rail program. It includes the scope, schedule, costs and budget to deliver the Authority’s priorities. In addition, it contains an in-depth risk assessment which establishes a structured risk mitigation management process.

This updated program baseline includes costs associated with the construction of the Central Valley Segments, all Phase 1 planning and environmental documentation required by the grants awarded to the Authority by the Federal Railroad Administration, and early “Bookend” investments. The updated program baseline provides a foundation for continuing to advance the program and provides a tool for the Authority to use a structured process for evaluating and managing changes to the scope, schedule and costs of the program.

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. To accomplish this, the Authority has evolved its organization, including staffing and organizational change to meet the

significant oversight responsibilities of a multibillion-dollar program of multiple megaprojects. The organizational and program management refinements that have occurred include:

- New executive leadership team to bring expertise and a focus on improvement
- Development of project controls and a new governance structure, including restructuring and formalizing approvals and reporting conducted through the Program Delivery Committee and the Business Oversight Committee
- Creation of a new Contract Management Office
- Addressing risk management through establishing a risk management team within the new Program Management and Oversight Branch
- Improving reporting capability

The governance changes have established a more formal assessment of the construction, financial, legal and other program perspectives related to all proposed changes to the program baseline. This has resulted in more informed decision-making and enhanced change management.

In addition to enhanced change management, the Authority has refined its project contingency and the management of that contingency through:

- Enhanced risk analysis that has been performed to develop the project contingency amounts,
- Recently approved change order delegation of authority which establishes clear line of responsibilities for contract change, including required COO or BOC authorization for major changes,
- Increased maturity of the organization, including enhanced governance processes, and
- Increased transparency by posting all change orders on the Authority's website.

To effectively and efficiently manage construction contracts, it is necessary to, at times, access project contingency in a timely manner. Therefore, staff recommends an enhanced level of CEO delegation for contingency management.

Staff has developed a procedure to ensure that appropriate oversight and governance is performed before any project contingency is accessed.

Legal Approval

The Legal Office has reviewed the contents of **Exhibit C** (description of proposed amendments to two contracts) 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 FY19/20 Total Program Budget of \$15.6 billion, an increase of \$1.9 billion or a 13 percent increase over the FY18/19 Total Program Budget of \$13.7 billion. The updated baseline also includes a \$2.3 billion FY19/20 capital budget.

These revised budgets reflect the programmed and funded projects necessary to continue progressing the Authority's commitments and priorities. The updated baseline prioritizes completing the ARRA Grant scope of work, the Central Valley Segment, and Bookend Corridor projects, which is consistent

with the previous methodologies for the Capital Outlay Report. In addition, the FY 19/20 Administrative Budget is reflected below.

Capital Outlay Budget (\$ in millions) - TOTAL PROGRAM BUDGET							
	Program Budget as of 2017-18	Program to Date Expenditures as of June 2018	Program Budget as of 2018-19	Program to Date Expenditures as of April 2019	Program Budget as of 2019-20	FY18-19 to 19-20 Budget	
						\$ Change increase/ (decrease)	% Change increase/ (decrease)
Total Budget	\$ 9,680.4	\$ 4,584.7	\$ 13,664.5	\$ 5,074.4	\$ 15,612.7	\$ 1,948.2	14.3%

Capital Outlay Budget (\$ in millions) - FISCAL YEAR 2019-2020 PROGRAM BUDGET							
	FY2017-18 Budget	FY2017-18 YTD Expenditures as of June 2018	FY2018-19 Budget	FY2018-19 YTD Expenditures as of April 2019	FY2019-20 Budget	FY18-19 to FY19-20 Budget	
						\$ Change increase/ (decrease)	% Change increase/ (decrease)
Total Budget	\$ 1,637.7	\$ 1,144.4	\$ 1,786.8	\$ 592.6	\$ 2,255.1	\$ 468.3	26.2%

Administrative Budget (\$ in thousands) - FISCAL YEAR 2019-2020 BUDGET							
	FY2017-18 Budget	FY2017-18 Expenditures	FY2018-19 Budget	FY2018-19 YTD Expenditures as of April 2019	FY2019-20 Budget	FY18-19 to FY19-20 Budget	
						\$ Change increase/ (decrease)	% Change increase/ (decrease)
Total Budget	\$ 45,367	\$ 35,146	\$ 47,220	\$ 24,071	\$ 51,684	\$ 4,464	9.5%
TOTAL POSITIONS		226		226		236	10 4.4%

This staff recommendation also proposes that the Board amend two (2) existing contracts reflecting a total increase of approximately \$4 million and appropriate term adjustments as shown. Each contract amendment has been confirmed to be included in the updated baseline by the Business Oversight Committee. The two tables below reflect the new Total Program Budget for each contract and the budget allocation for FY19/20.

Table 1: 2019-20 Fiscal Year Budget Impact

Represents the fiscal year snapshot of each contract’s allocated budget for FY19/20.

Contract Name	Contract/Activity Number	2019-20FY Budget Allocation	Funding Source
STV	HSR14-39	\$11,613,262	State funding
Parsons Transportation Group	HSR08-05	N/A (Time Only Request)	State funding

Table 2: Total Program Budget Impact

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
STV	HSR14-39	\$67,529,252	\$4,046,155	State Funding
PTG	HSR08-05	\$80,640,000	N/A (Time Only Request)	State Funding

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

Recommendations:

Staff recommends Board acceptance of the updated program baseline based upon the described scope, schedule and costs including the FY 19/20 Budget that aligns spending for the next year with expected program expenditures and related existing and future contracts.

In addition, staff also recommends the Board authorize the CEO to execute the identified contract amendments as specified in **Exhibit C**. These actions are necessary to implement the delivery strategy of the Central Valley Segment, the Phase 1 environmental approvals, and the early “Bookend” investments as outlined in the Project Update Report.

Staff also recommends authorization of the chief executive officer to manage the approved project contingency balance, as detailed in the updated program baseline, with required reporting to the F&A Committee at its regular meetings or upon request, and for the F&A Committee to provide recurring notification to the Board on contingency trending information.

Attachments

- Exhibit A - Updated Program Baseline Schedule Overview
- Exhibit B - Updated Program Baseline Cost Summary
- Exhibit C - Baseline Contract Amendments and Previous Board Actions
- Exhibit D - Capital Outlay and Expenditures Report—Total Program
- Exhibit E - Capital Outlay and Expenditures Report—Fiscal Year 19/20
- Exhibit F,G & H - Executive (Administrative) Budget for FY 19/20