



California High-Speed Rail **BRIEFING: February 18, 2020, Board Meeting Agenda Item #4**

TO: Chairman Mendonca and Board Members
FROM: Brian Kelly, Chief Executive Officer
DATE: February 18, 2020
RE: Draft 2020 Business Plan for Public Review and Comment

Background

As required by Public Utilities Code Section 185033, and as amended by AB 528, the California High-Speed Rail Authority (Authority) is required to prepare, publish, adopt and submit an updated Business Plan to the Legislature on May 1 of every even year. Statute dictates that at least 60 days prior to submittal to the Legislature the Draft Business Plan be released for public review and comment.

The Draft 2020 Business Plan was issued on February 12, 2020, by posting it on the Authority's website, thus opening the public comment period. The 60-day comment period will run through April 12, 2020. Staff intends to present the plan and the comments received from the public to the Board of Directors prior to Board action, scheduled for the April 21, 2020 meeting.

Previous Business Plans

The Authority has produced business plans since 2012. All business plans provide a snapshot in time of the most current information about the high-speed rail program at the time of adoption. In requiring an updated plan every two years, the Legislature envisioned that these plans would reflect updated forecasts and estimates as well as decisions that have been made and changes that have occurred since the prior business plan. This has been the case with the Authority's previous plans and remains so with the Draft 2020 Business Plan.

The Authority's 2012 Business Plan served as a foundational document on how the system would be implemented. Specifically, it laid out the concept of delivering the Phase 1 system, from San Francisco to Los Angeles/Anaheim, 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.

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.

In 2016, the Business Plan set a new implementation direction, outlining an initial operational high-speed line between the Silicon Valley (San Jose) and the Central Valley (Poplar Avenue, north of Bakersfield). It further

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. Since 2016, the Authority has remained focused on delivering a Silicon Valley to Central Valley Line as the first operational high-speed rail line.

In the 2018 Business Plan, the Authority introduced showing capital cost estimates in ranges based on where each project section or phase is in the project design and development process. It also showed that greater funding certainty is needed to fully deliver the initial Silicon Valley to Central Valley Line and the full Phase 1 system. Based on this, the plan outlined three principles to guide decision making:

- Initiate high-speed rail service in California as soon as possible.
- Make strategic, concurrent investments 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 becomes available.

The 2018 Business Plan included a recommendation that the system be delivered through a "building block" approach and that options for potential interim service in the Central Valley be evaluated. This led to three additional studies being conducted over the last two years, two of which were conducted by the Authority's Early Train Operator (ETO) and one by the Authority's Financial Advisor. The first ETO study was presented in the Authority's 2019 Project Update Report along with a recommendation that a line connecting Merced, Fresno and Bakersfield be developed for interim service. The remaining two studies are summarized in the 2020 Business Plan and posted on the Authority's website.

Discussion

Following the issuance of the May 2019 Project Update Report, the Board of Directors requested two studies to evaluate staff's interim service policy recommendation. The Board's Finance and Audit Committee requested that our Financial Advisor, KPMG, prepare a *Business Case Assessment Study* for the proposed Merced-Bakersfield interim service, evaluating a range of issues. In addition, the Board requested that the ETO, DB Engineering & Consulting USA, prepare an expanded analysis comparing the Merced to Bakersfield corridor investment recommendation to comparable early investment options in Northern and Southern California -- the *Side-by-Side Analysis Report*. These studies are summarized in the Draft 2020 Business Plan and posted on the Authority's website. The conclusions and recommendations from these two studies reaffirm our recommendation to proceed with an investment in the Merced to Bakersfield corridor for interim service. This will not only provide key mobility, economic and environmental benefits but also can be delivered with currently available funding.

The Authority has identified a budget between now and 2030 of between \$20.6 billion and \$23.4 billion. The range accounts for the variability in the Cap-and-Trade auction market. At the low end, it is assumed that Cap-and-Trade will provide the Authority with \$500 million per year and at the high end \$750 million per year. Since the enactment of AB 398 (Statutes of 2017), the Authority has averaged \$730 million annually for the project.

With the currently available funding that is committed to this project between now and 2030, we will:

1. Complete the 119-mile Central Valley construction segment and lay track pursuant to our federal funding grant agreements with the Federal Railroad Administration;
2. Expand the 119-mile Central Valley segment to 171-miles of operable electrified high-speed rail connecting Merced, Fresno and Bakersfield, three of the fastest growing areas in California, pending approval by the Board of Directors;
3. Commence testing of electrified high-speed trains by 2025 and put those trains in service by 2028-29;
4. Environmentally clear all segments of the Phase 1 system between San Francisco and Los Angeles/Anaheim in the next 18-24 months;

5. Complete the “bookend” projects that we have committed funding to in Los Angeles and the Bay Area-- projects valued at more than \$3 billion;
6. Pursue additional funding opportunities to prospectively “close the gaps” and expand electrified high-speed rail service to the Bay Area and Los Angeles/Anaheim.

The Draft 2020 Business Plan highlights a number of organizational and leadership changes, including the formation and alignment of a new executive management team around progress and delivery. These changes include performance and process improvements that are yielding tangible and measurable results that are summarized in the ions, have resulted in a focus on performance and delivery and show the progress achieved since the 2018 Business Plan. It also includes updated forecasts and estimates that are required including ridership and revenue forecasts, capital cost estimates and operations and maintenance estimates.

Next Steps

The Draft 2020 Business Plan was released for a 60-day comment period on February 12, 2020. Comments may be made online, via mail, by phone and at the regularly-scheduled Board meetings on February 18 and March 17, which will constitute the required public hearings on the Draft 2020 Business Plan. Comments will be accepted through the 60-day comment period ending on April 12, 2020.

The Authority is providing the following options for submitting comments:

- Online comment form through the Draft 2020 Business Plan website at:
https://www.hsr.ca.gov/about/business_plans/business_plan_2020_comment_form.aspx
- By email at: DraftBP2020@hsr.ca.gov
- By U.S. mail to the Authority:
California High-Speed Rail Authority
Attn: Draft 2020 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 February 18, Sacramento and March 17 in Los Angeles.

All comments received will be provided to and summarized for the Board of Directors. After receipt of public comment, staff will present the 2020 Business Plan (with any recommended changes) to the Board for consideration and approval at the April 21 Board meeting. Upon Board approval, and after incorporating the Board’s direction, the Authority will prepare, publish and submit the final 2020 Business Plan to the California State Legislature on or before May 1, 2020.

Legal Approval

Approved

Budget and Fiscal Impact

Approved

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Original Signed 2/12/2020
Reviewer Name and Title: Alicia Fowler Chief Legal Counsel	Signature verifying legal analysis: Original Signed 2/12/2020

Recommendations

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

Attachments

Draft 2020 Business Plan