



## California High-Speed Rail

### BRIEFING: March 25, 2021, Board Meeting Agenda Item #2

**TO:** Chair Richards and Board Members

**FROM:** Brian P. Kelly, Chief Executive Officer

**DATE:** March 25, 2021

**RE:** Consider Adopting the 2020 Business Plan

#### **Summary**

The California High-Speed Rail Authority (Authority) is required by Public Utilities Code Section 185033 to prepare, publish, adopt, and submit a biennial Business Plan to the Legislature. In February 2020, the Authority issued a Draft 2020 Business Plan for public comment. Subsequently, the COVID-19 pandemic caused the final 2020 Business Plan to be deferred. The Authority prepared a *Revised* Draft 2020 Business Plan, which was issued on February 9, 2021 and posted on the Authority's website. Staff presented a high-level briefing to the Board of Directors at its February 9, 2021, meeting and a 30-day public comment period commenced.

The Authority held a public hearing on March 2, 2021 to take comments on the *Revised* Draft 2020 Business Plan. The public was notified of the hearing date through social media and on the Authority's website. Comments were also submitted to the Authority online, via mail/email and on voicemail. Public comments were also made at two legislative hearings.

After considering all of the comments, staff has prepared proposed edits for the Board's consideration. Staff has prepared two documents to help inform the Board's consideration of the adoption of a final 2020 Business Plan:

- The Staff Recommended Edits table lays out proposed substantive edits to text.
- The Errata and Updates table reflects minor technical corrections to text, such as punctuation, spelling and exhibit updates and labeling, as well as updates to current data.

These documents have been posted on the Authority's website. Following Board action, staff will incorporate the Board's direction and prepare a final 2020 Business Plan to be submitted to the Legislature on or before April 15, 2021.

#### **Background**

The Authority originally issued the Draft 2020 Business Plan on February 12, 2020, initiating the required 60-day public review period. Notices were circulated, and the information was posted on the Authority's website. Stakeholders and the public were provided various ways to comment on the Draft Plan. A public

hearing was held at the February 18, 2020, Board of Directors meeting and the public comment period was scheduled to close on April 13, 2020. However, later in February, federal, state and local governments issued emergency “stay-at-home” orders in response to the outbreak of COVID-19 and to protect citizens’ health and well-being. This resulted in changes to the public review schedule for the Draft 2020 Business Plan.

On April 6, the Speaker of the Assembly asked that the submittal date of the final 2020 Business Plan be extended to July 1, 2020. Upon confirmation with the Senate President Pro Tempore’s Office, the Authority agreed to the revised date of July 1, 2020. To accommodate the new date, the Authority extended the public comment period to June 1, 2020. This extension allowed for additional legislative hearings and additional opportunity for the public to comment on the plan.

Comments were received through a variety of means, including Board hearings, a legislative hearing, letters and the Authority’s website. The Board received additional public comment on the Draft 2020 Business Plan at its April 21 Board meeting. In addition, comments were received at a May 27 Assembly Transportation Committee hearing, during which legislators also heard from the Legislative Analyst’s Office, the California High-Speed Rail Legislative Peer Review Group (Peer Review Group), regional agencies and stakeholders as well as members of the public. The Authority also held briefings with individual legislators and other elected officials to receive comments on the Draft Plan.

In June 2020, against this backdrop, it became clear that the uncertainty surrounding the depth and duration of the pandemic would continue to create unknowns that warranted further assessment. For that reason, the Administration, Legislative leadership and the Authority agreed to defer the adoption of the 2020 Business Plan from July 1, 2020, to December 15, 2020. Subsequently, in early December 2020, all parties reached a second agreement to release a *Revised* Draft 2020 Business Plan by February 12, 2021 and that the Authority would submit the final 2020 Business Plan to the Legislature by April 15, 2021 (as part of these agreements, the Legislature removed the requirement to submit the California High-Speed Rail Project Update Report in March 2021). The *Revised* Draft Business Plan was issued on February 9, 2021, for an additional 30-day public review.

### *Key Aspects of the 2020 Business Plan*

The proposed final 2020 Business Plan restates the importance of fulfilling the mission set forth in Proposition 1A to deliver the full Phase 1 system and enable the state to meet its mobility, environmental and economic objectives. It presents a vision for delivering high-speed rail in California focused on three key principles:

- 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 proposed final 2020 Business Plan lays out an implementation strategy to advance this mission consistent with these principles. Specifically, the priorities are:

- Complete construction of the 119-mile Central Valley Segment and lay track to fulfil our federal grant agreements with the Federal Railroad Administration (FRA);
- Meet our federal commitment to environmentally clear the entire 500-mile system between San Francisco and Los Angeles/Anaheim;
- Advance construction on the “bookend” projects that we have committed funding to the Los Angeles Basin and the Bay Area;

- Commence testing of the electrified high-speed system in 2025, certify trains by 2027, and put electrified high-speed trains in service by the end of the decade;
- Expand the 119-mile segment in the Central Valley to develop 171 miles of electrified high-speed rail service by advancing design, funding pre-construction work and constructing extensions to Merced and Bakersfield, connecting downtown Merced, Fresno and Bakersfield with additional stops at Madera and Kings/Tulare;
- Advance project design in each segment, including the four Southern California segments between Bakersfield and Anaheim and the two Northern California segments between San Francisco and Merced as each segment is environmentally cleared; and
- Pursue federal and private funds prospectively to “close the gaps” and expand electrified high-speed rail service to the Bay Area and Los Angeles/Anaheim, completing the Phase 1 system approved by the voters in 2008.

The proposal to develop interim service between Merced and Bakersfield was informed by two studies that were requested by the Board of Directors in 2019; specifically, the *California High-Speed Rail Merced to Bakersfield Business Case Study* prepared by the Authority’s financial advisor, and the *Side-by-Side Study* prepared by the Authority’s Early Train Operator.

During the review of the February 2020 Draft Business Plan, members of the Legislature and the California High-Speed Rail Peer Review Group (Peer Review Group) raised questions about the interim service proposal. In response, the Authority conducted additional analyses to address their comments and questions which are described in the *Revised* Draft 2020 Business Plan including:

- A peer review of the ridership forecasts prepared by the Early Train Operator was conducted by an independent review team comprised of Resource Systems Group (RSG) and its sub-contractor LTK. RSG presented the results of its review at the February 9, 2021, Board meeting and its report was posted on the Authority’s website.
- The Peer Review Group recommended that a Memorandum of Understanding (MOU) be developed to establish roles and responsibilities and address issues associated with operating interim service including the requirements of integrating interim operations with existing intercity and regional rail systems. An initial MOU was approved in November 2020 by the Governing Board of the San Joaquin Joint Powers Authority, the California State Transportation Agency and the Authority. A copy of the MOU is on the Authority’s website.
- A review of legal questions regarding the Authority’s interim service business model as it relates to Proposition 1A “no operating subsidy” provisions was conducted.

The results of these efforts reaffirm staff’s recommendation that expanding the 119-mile line currently under construction by an additional 52 miles into the cities of Bakersfield and Merced is an appropriate next step for building out the system.

The *Revised* Draft Plan focuses extensively on risk. Because the public comment period coincided with the commencement of the COVID-19 pandemic, the Authority received a number of comments and questions about the potential risk and uncertainty the pandemic presents to the program both in the short- and long-term. Over the past year, the Authority conducted a comprehensive risk analysis to identify and assess potential risks and to develop strategies to better manage and mitigate them. This review resulted in three specific steps:

1. Increasing the risk contingency in the Authority’s Program Baseline budget;
2. Establishing an Enterprise Risk Management program, including the creation of a risk committee and strengthening our expertise in risk analysis under the direction of a newly appointed Director of Risk Management and Project Controls; and
3. Implementing a Stage Gate project development and delivery process to add more structure and rigor as projects advance through planning, design and into construction in order to better understand, manage and mitigate risks before starting future construction contracts.

## *Comments and Briefings*

A total of 257 comments have been received on the *Revised* Draft 2020 Business Plan, all of which are included as an attachment to this staff report and have been posted on the Authority's website. The Authority had previously received a total of 203 comments on the Draft 2020 Business Plan including short e-mail comments, verbal hearing presentations and multi-page letter submissions that were provided to the Board in September 2020. In addition, the Authority has engaged with elected officials, public agencies, organizations and stakeholders and received comment and feedback from those discussions as well.

Two legislative hearings were conducted, in which legislators were briefed on the *Revised* Draft 2020 Business Plan. The Legislative Analyst's Office, the California High-Speed Rail Legislative Peer Review Group and regional agencies/stakeholders also presented at these hearings as well. Opportunities for public comment were also provided. The two hearings were held before the:

- California State Assembly, Joint Hearing Budget Subcommittee No. 3 on Climate Crisis, Resources, Energy and Transportation and Transportation Committees; and the
- California State Senate, Joint Hearing Transportation and Budget Subcommittee #5.

Staff also held individual briefings with legislators and legislative staff to provide updates on the implementation plan, to address questions and seek comments.

## **Prior Board Action**

No prior Board action has been taken on the 2020 Business Plan.

## **Discussion**

The Authority received a wide range of comments on the *Revised* Draft 2020 Business Plan. Some were generally supportive of the program and expressed support, willingness to continue working with the Authority on implementation issues and expressed interest in linking their communities to a statewide high-speed rail system as soon as possible. The Authority received many letters from Central Valley cities, counties, agencies and organizations that supported developing the Merced to Bakersfield line for interim service. Several Bay Area jurisdictions, agencies and organization also supported the Merced to Bakersfield line emphasizing the importance of completing it and then building the connection to the Bay Area. The Authority also received comments and letters from Southern California agencies and communities advocating for earlier investments in Southern California rather than committing all remaining funding to the Central Valley. A number of comments supported the recommendation to provide funding to continue advancing design on the full 500-mile project after environmental documents are complete in each project section.

The Authority received a number of questions and comments regarding the proposed phasing of track and systems approach in the Central Valley. The questions revolved around how this might affect the proposed interim service plan, ridership, fare revenues, capital and operating costs and safety. Additional language to address these and other comments received are included in the Staff Recommended Edits table that is attached to this memo for the Board's consideration. In addition, staff will provide a briefing on the phased track options and tradeoffs at the March 25, 2021 Board meeting.

The Revised Draft 2020 Business Plan meets all statutory requirements including updated capital cost estimates, ridership and revenue forecasts, financial scenarios for different levels of service, anticipated completion of environmental reviews, anticipated federal, state and other funding and a discussion of all reasonably foreseeable risks. These and other analyses are supported by technical reports posted on the Authority's website.

## **Next Steps**

Upon Board approval, and after incorporating the Board's direction, staff will complete the final 2020 Business Plan, and publish and submit it to the California Legislature on or before April 15, 2021.

### **Legal Approval**

The proposed final 2020 Business Plan developed at the Board's direction will comply with the requirements of Public Utilities Code Section 185033.

### **Budget and Fiscal Impact**

The proposed final 2020 Business Plan includes new estimates of revenue and cost for the project. However, any change to the Program Baseline budget would be brought back to the Board through a separate action item.

<b>REVIEWER INFORMATION</b>	
Reviewer Name and Title:  <b>Brian Annis</b>  <b>Chief Financial Officer</b>	Signature verifying budget analysis:  <b>Original Signed March 18, 2021</b>
Reviewer Name and Title:  <b>Alicia Fowler</b> <b>Chief Counsel</b>	Signature verifying legal analysis:  <b>Original Signed March 18, 2021</b>

### **Recommendations**

Staff recommends that the Board, based on its review of all the comments received and staff presentations at Board meetings, deliberate and direct staff to make any final changes to be reflected in the final 2020 Business Plan and approve that plan to be submitted to the Legislature on or before April 15, 2021.

### **Attachments**

- Draft Resolution #HSRA 21-02
- Staff Recommended Edits table to the *Revised* Draft 2020 Business Plan
- Errata and Updates table to the *Revised* Draft 2020 Business Plan
- Public comments on the *Revised* Draft 2020 Business Plan
- PowerPoint: Phased Track Options