

April 28, 2025

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly

State Capitol
Sacramento, California

Dear Governor and Legislative Leaders:

This letter summarizes a review conducted by the Office of the Inspector General, High-Speed Rail (OIG-HSR) of the California High-Speed Rail Authority's (Authority) March 2025 Project Update Report (project update report). In accordance with Public Utility Code §187038 (a), the OIG-HSR provides this letter report summarizing its findings regarding the Authority's project update report, which state law requires the Authority to publish on March 1 of every odd-numbered calendar year. State law requires the project update report to include information describing the current and anticipated future condition of the project, including the current and projected budget and schedule, as well as estimated and actual costs. The Authority asserted that the project update report "fulfills the Authority's requirement to update the California Legislature on the development and implementation of intercity high-speed rail service." However, as it indicates in its project update report, the Authority—because of a change in leadership and strategic direction—has not provided the information for several reporting requirements regarding the project's schedule and costs and will therefore issue a supplemental report in the summer of 2025.

Because the Authority has demonstrably not fulfilled its statutory reporting requirements (as further detailed in this report), we will evaluate the Authority's supplemental report against relevant statutory reporting requirements and encourage state lawmakers to hold the Authority accountable for meeting these standards and for implementing numerous OIG-HSR recommendations we previously made related to the content and clarity of its annual reports. In addition to a few clarifications that we provide in this letter report regarding some of the Authority assertions made in the project update report, we note that the Authority's lapse in reporting was not due to external factors beyond its control, but rather was the result of internal strategic decisions.¹ Accordingly, we emphasize that required project reporting—and the resulting transparency to stakeholders and the public—should occur at required intervals and not hinge on the Authority's internal circumstances and judgment. If the Authority believes otherwise, it should seek a change to statutory reporting requirements.

¹ The Authority reported that it initiated a comprehensive effort to update its design criteria, scope, cost, procurement strategy, ridership, and schedule.

The Authority's 2025 Project Update Report Omits Required Information

The Authority did not meet requirements in state law to provide a complete project update report in the required time frame. State law establishes not only the timing of the project update report, but also the specific information that it must contain. Although the Authority published a report by the statutory deadline of March 1, it failed to include in the report much of the statutorily required information, as Table 1 and Table 2 summarize. The Authority indicated that it will provide the missing information in a forthcoming supplemental report by the end of August 2025.

Table 1. Summary of Statutory Requirements per Public Utilities Code §185033.5	Requirement Met
(a) Summary of the overall progress of the project	Yes
(b, c) The baseline, current, and projected budget for all project phase costs	Partially ²
(d) Expenditures to date for all project phase costs	Yes
(e) Current and projected work schedule and the baseline schedule	No ³
(f) Summary of milestones achieved and future milestones to be reached (two-year period)	Yes
(g) Issues identified and actions taken to address those issues (two-year period)	Partially
(h) Thorough discussion of risks to the project and steps taken to mitigate those risks	Partially

Table 2. Summary of Statutory Requirements per Public Utilities Code §185033.7 (SB 198 Requirements)	Requirement Met
(2)(b)(1) Schedule related to the delivery of each of the following: <ul style="list-style-type: none"> • 119-mile dual track segment from Madera to Poplar Avenue • Right-of-way, planning, and advance engineering for the Merced and Bakersfield extensions • Agreements between the Authority, the State, the San Joaquin Joint Powers Authority, and the San Joaquin Regional Rail Commission related to the Merced extension and high-speed rail operations • Updated cost estimate related to the Merced and Bakersfield extensions • Funding plan for the Merced-to-Bakersfield segment • Additional milestones for completing the Merced-to-Bakersfield segment and Phase 1 	No ³
(2)(c)(1)(A-E) Estimated and actual costs for the following: <ul style="list-style-type: none"> • Civil works for the Merced-to-Bakersfield segment • Right-of-way, acquisitions, utilities, and other third-party agreement costs • Rolling stock, interim use, and stations • Contract costs, including contingencies to cover change orders (estimates only) 	No ³
(2)(c)(1)(F) Updates on progress achieving project milestones set in annual reports	Partially ⁴
(2)(c)(1)(G) Funding commitments, sources, and spending beyond the Merced-to-Bakersfield segment	Yes

² Program baseline and current budget has not been updated since the 2024 Business Plan, and projected budget information has not been provided.

³ The Authority has indicated that the information is being revised and will be updated in a supplemental report it will provide by the end of August 2025.

⁴ Updates do not include information on the following milestones established in the 2023 Project Update Report and 2024 Business Plan: design status, schedules, and target funding.

The Authority Did Not Include Any of the Information That OIG-HSR Recommended It Include in the 2025 Project Update Report

The Authority has thus far not addressed any of the recommendations our office made to enhance the quality and usefulness of the Authority's annual reporting. The recommendations are aimed at improving published information, including that related to funding, schedule, and procurement, and are designed to provide state lawmakers and project stakeholders with a fuller range of information needed to make key decisions about the project's funding and oversight. Table 3 lists the recommendations the OIG-HSR has made in prior reviews that were to be addressed in the project update report.

Table 3. OIG-HSR Recommendations That Should Be Addressed in the Supplemental Report
1. Analyze the prospects of receiving federal funds in time to keep the Merced-to-Bakersfield segment on schedule.
2. Provide information on whether and when additional funds must be identified to keep the Merced-to-Bakersfield segment on schedule.
3. Update funding plan with information about when and how much funding it needs to meet the earliest and latest dates for completing the Merced-to-Bakersfield segment according to the most current schedule envelope. To the extent the Authority includes funding dates that account for its schedule contingency, it should disclose and explain those considerations.
4. Present the following regarding federal funding prospects: <ul style="list-style-type: none">a. Current remaining funding for targeted grant programsb. Limits on grant award sizes for targeted programsc. Assumptions about future funding being approved by the federal government; andd. Prospects for receiving adequate grant funding, including a range of possible dollar amounts and timeframes.
5. Provide information about the feasibility of loans, including the results of its consultations with federal lenders, anticipated timeframe, and interest costs for potential loan amounts and any changes to the project's state funding necessary to qualify.
6. Conduct a risk analysis of the Merced-to-Bakersfield schedule and publish the results, including the Authority's confidence level in its target date for completing the Merced-to-Bakersfield segment and how it determined the amount of contingency time added to establish an envelope for uncertainty and risk.
7. Review and revise the schedule for completion and operation of the Merced-to-Bakersfield segment.
8. Review and revise the associated schedule envelope, identifying opportunities to mitigate delays that have already occurred and prevent future delays.
9. Provide information about options for initiating service on a limited section of the Merced-to-Bakersfield segment by 2033, if necessary, and the estimated costs to realize them.
10. Refine and publish the results of its ridership model along with other information necessary to provide the most reliable data about the likely need for operating subsidies for the service.
11. Present the new procurement timeline established by incorporating its reconsidered procurement strategy, along with a discussion of the likely impacts on the Merced-to-Bakersfield schedule.
12. Provide information on the implementation status of recommendations stemming from the independent review of its construction quality assurance and quality control processes.

In many cases, the Authority had previously agreed to include the information specifically in its 2025 Project Update Report. However, because many of the recommendations relate to the statutorily required information that is generally missing from the report, the recommended information was also not included. The Authority has since committed to us that the supplemental report it intends to issue by the end of August 2025 will address the recommendations in Table 3.

Information We Reviewed Was Generally Accurate, but Some Assertions Require Clarification

We reviewed the accuracy of 14 elements of information that the Authority included in the project update report. These elements were related to key aspects of the project that the report covered, such as certain construction timelines, actual expenditures and authorized funding, and risk management. For each of the 14 elements we selected, the Authority was able to provide evidence, such as underlying data, to support the information it publicly reported.

However, three of the 14 elements we reviewed require certain clarifications to provide stakeholders with a more complete view of the project's status. These elements provide information about efforts to mitigate construction quality risk, other key risks to the overall project, and the planned use of standardized contract models for future procurements. Below, we include additional information about each of these elements to clarify that some of the progress asserted by the Authority is not yet fully assured.

Risks Related to Construction Quality Have Not Yet Been Fully Mitigated

Although the Authority identifies construction quality control and assurance as a key issue it has successfully mitigated, its actions to date do not demonstrate that it has indeed done so. In 2022, an expert peer review panel conducted an independent review of the Authority's construction quality program and made recommendations for improvement to the Authority. For example, the panel recommended that the State should require quality assurance by Authority personnel continuously on site, in Sacramento, and at testing facilities. In the 2023 Project Update Report, the Authority identified construction quality control and assurance as a key issue it faces. Subsequently, in our review of the 2024 Business Plan, we determined that the business plan did not demonstrate the Authority's progress in implementing the independent review's recommendations. Our resulting recommendation—which the Authority agreed with—stated that the Authority should provide in the 2025 Project Update Report information on the implementation status of the recommendations stemming from the independent review. However, the Authority did not include such an update.

Instead, the project update report described construction quality control and assurance as a prior key issue that the Authority had successfully mitigated. The Authority described management actions it had taken to establish and carry out a quality program to prevent future quality disruptions, including establishing quality procedures to define requirements, roles and responsibilities, and monitoring and reporting cadences. Our review found that the description of these actions in the report is generally accurate. Specifically, the

Authority has developed a Construction Quality Management Plan to update the Authority's guidance on construction quality across the high-speed rail project.

However, the Authority's efforts to improve this process have not yet been fully implemented. This is in part because its Construction Quality Management Plan is still in draft form and going through the Authority's review and approval process. Quality management staff stated that because of recent reorganizations within the Authority, it was unclear when the draft plan would be finalized. Furthermore, the draft plan only applies to active construction on the 119-mile segment and will need to be revised for future planned construction, such as the track and overhead contact system, as well as the Merced and Bakersfield extensions, which the Authority has indicated will utilize different contracting mechanisms. In the absence of an approved Construction Quality Management Plan, the Authority has begun to implement components of the current draft plan by issuing directives, such as one revising the process for approving contractors' monthly payments to include a focus on construction-quality-related items.

Ongoing efforts to address staffing challenges also suggest that the Authority has not yet fully implemented the 2022 recommendations. Following the independent review of construction quality, the Authority indicated in a budget request that it would need additional state staff to implement the review's recommendations. For example, the independent review recommended expanding field inspection and testing by the Authority. The Authority subsequently requested eight positions for its Construction Quality Oversight Team, explaining that to ensure the highest quality standards, state staff were needed to take a more active role in field inspection activities. The State authorized those positions in July 2024, but as of April 2025, none had been filled. According to the Authority, it has selected a candidate for one position, whose job offer is being processed, and has conducted interviews for the remaining positions but has not yet selected candidates.

While we acknowledge that the Authority is making progress implementing needed procedures and filling needed positions, given these efforts are ongoing, it is premature for the Authority to conclude that the construction quality and assurance risk has been fully and successfully mitigated. Therefore, the Authority needs to provide in its supplemental report the current implementation status of all recommendations stemming from the independent review, as we previously recommended. Doing so will provide a more complete picture of the extent to which the Authority has mitigated construction quality risk and highlight any actions it still needs to take.

Information About Project Risks and Controls Is Incomplete

The second element that requires clarification is the Authority's discussion of risks to the overall high-speed rail project. State law requires the project update report to include a thorough discussion of risks to the project and steps taken to mitigate those risks. Although the project update report discusses some risks and controls, that discussion is insufficient. Specifically, the report does not include all key risks identified by the Authority, nor does it necessarily reflect the highest priority risks among them.

The Authority has an established enterprise risk management process designed to identify and prioritize risks to the project, but it did not take necessary action in time to fully inform the discussion of risks in the project update report. The Authority used its established process for its 2024 Business Plan, which listed all the risks it identified through the process and elaborated on several of the top priority risks and the steps to mitigate them. However, at the time it issued the project update report, the Authority had not completed the established process largely because of changes in personnel. It had progressed to the point of identifying thirteen risks but had not yet ranked them by priority. Instead of presenting all the identified risks in the report, Authority leadership selected only four to include. Further, those four risks may not represent those that are most critical to the project because the Authority had not yet prioritized the top risks according to its established process. Rather, according to the Authority, leadership chose to report on the risks it did because those risks and the efforts to mitigate them were those less likely to be significantly altered by current project-wide reorganization and reevaluation efforts. The Authority explained that because the status of other identified risks requires more work and information from the project-wide efforts, it believes it is prudent to wait to provide an update on the context of those risks once that effort is completed, allowing management mitigation actions to provide more meaningful insight into how the Authority is addressing those risks.

Regardless of what it deems prudent, state law requires the Authority to provide a thorough discussion of risks in every project update report. Incomplete information about risks—especially those related to areas currently undergoing significant change—limits the ability of lawmakers and other stakeholders to understand the full picture of which risks are most impactful and urgent, and to assess the Authority's plans for mitigating them. For example, the project update report did not include a discussion of schedule risk, which was on the unranked list of thirteen enterprise risks. Excluding this risk prevents a full understanding of threats to the project, as we recently reported that the schedule for completing the Merced-to-Bakersfield segment has slipped by one year, reducing the time available to manage uncertainty and risk in the future. According to the Authority, it is continuing to progress through its risk management process, and it plans to share the full list of risks in the supplemental report and elaborate upon the highest priority risks as determined through the process. To ensure that it is prepared to provide thorough risk information in the future as required, the Authority needs to realign the timing of its risk management process with that of its required reporting and ensure the process proceeds on schedule even in the midst of management or strategic efforts, such as reorganization.

The Value of Standardized Contract Models Is Uncertain

The Authority stated in the project update report that it is developing standardized contract models with essential provisions tailored to various procurement types. We verified that the Authority has recently developed or is developing some standardized contract models for certain types of procurements, such as *contract manager/general contractor* and *progressive design build*, that differ from the design-build contract type with which it has experience. However, the Authority told us that it is uncertain whether it will actually use the models it developed.

Whether it will use the models is uncertain because the Authority has yet to decide on a new procurement strategy for the project. As we discussed in our recent report on the Authority's schedule for the Merced-to-Bakersfield segment, following the hiring of its new CEO in the fall of 2024 the Authority paused certain procurement activities to reconsider the strategy it had previously developed. We recommended that the Authority should establish and present in the 2025 Project Update Report a new procurement timeline that incorporates its reconsidered procurement strategy. However, the Authority acknowledged in the report that the reconsideration of its procurement strategy is still underway. During our review of the report, the Authority confirmed to us that its procurement efforts remain on hold and that the standardized contract models it has developed may or may not be used for future procurements, depending on whether the models fit the Authority's new procurement strategy.

Until the Authority establishes and presents its procurement strategy and timeline, it cannot be certain that the efforts discussed in the report will be relevant, despite the report's clear implication that they represent progress. Therefore, to provide essential context for those efforts and allow stakeholders to assess the progress on needed procurements, the Authority should implement our recommendation in its supplemental report.

The Authority Should Have Followed Its Procedures to Provide a Timely and Complete Report

Although the Authority has gone through a change in leadership, it must keep commitments to project stakeholders by providing timely and complete legislative reports. The Authority indicated that the personnel and strategic changes that it has recently undergone delayed the submission of key required information related to project costs and schedule. However, providing a complete project update report in a timely manner is not a strategic decision for the Authority to make at its discretion, but rather a legal requirement in recognition of this information's importance to lawmakers and other stakeholders who help oversee and provide resources to the project.

The Authority's internal procedures recognize the duty to provide complete and timely information by setting clear timeframes for the development of that report content. However, the Authority did not follow those procedures for this project update report. For example, according to the procedures, to publish the report by March 1 as required by law, the Authority will finalize its comparison of baseline budget and schedule by mid-October, produce preliminary drafts by mid-November, and circulate a draft for review by external stakeholders by mid-January. However, in discussions with our office in November and December 2024, the Authority indicated that it had not yet decided if it would publish the complete report in March because the work had not yet been completed to update the budget and schedule, among other requirements. Although it was in a period of transition when the current CEO assumed leadership in September 2024, the Authority should have relied on its established timelines to begin producing the most up-to-date information available while also acknowledging areas where this information may change as it reconsiders its current strategies. The Authority's decision to revise its approach to certain aspects of the project, however potentially significant, does not remove its obligation to provide the most up-to-date information possible across all areas required by state law.

We spoke with legislative staff involved in oversight of the high-speed rail project, and they emphasized that the statutorily required timing and content of the Authority's annual reports is intentional and important to state lawmakers. In the spring of each year, state lawmakers are deliberating on the state budget, which means they are weighing the relative merits of numerous state priorities and determining how to allocate the State's limited resources among those priorities. The high-speed rail project is only one of many such priorities that state lawmakers must evaluate during that process. The information state law requires the Authority to include in its annual reports provides lawmakers with critical insight into the status and long-term funding needs of the project. Such insight may guide lawmakers' actions not only in the immediate term, but also in fulfilling their role of overseeing and helping position the project for success going forward. When state lawmakers are only aware of what limited information the Authority voluntarily provides based on its determination of when best to provide it, lawmakers' ability to fulfill their duties is reduced.

Going forward, the Authority should ensure that it follows its procedures to prepare and provide complete annual reports in a timely manner, regardless of any changes in leadership and vision that may occur over the course of the project. With respect to the supplemental report the Authority intends to issue, we will begin reviewing that report as soon as the Authority makes it available to us to ensure that it satisfies statutory requirements and includes the information we previously recommended.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "B. Belnap". The signature is fluid and cursive, with the first name "Benjamin" and last name "Belnap" clearly distinguishable.

Benjamin M. Belnap, CIA
Inspector General, High-Speed Rail