

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE No. 3 ON RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, JANUARY 27, 2016

9:30 A.M. - STATE CAPITOL ROOM 447



ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
2665	HIGH SPEED RAIL AUTHORITY	
ISSUE 1	OVERSIGHT OF PROJECTS COST AND SCHEDULE PROJECTIONS	1

2665 HIGH SPEED RAIL AUTHORITY**ISSUE 10: OVERSIGHT OF PROJECTS COST AND SCHEDULE PROJECTIONS**

The Subcommittee will discuss the validity of the High Speed Rail Authority's estimates of project costs and schedule.

PANELISTS

- Dan Richard, Chairman of California High-Speed Rail Board of Directors
- Jeff Morales, Chief Executive Officer of California High-Speed Rail Authority
- Louis Thompson, Chairman of California High-Speed Rail Peer Review Group

BACKGROUND

California's High Speed Rail System is the largest infrastructure project underway in North America. Spanning 520 miles, the Stage 1 of the project is expected to cost \$67.6 billion to complete over a 16 year timeline.

The California High-Speed Rail Authority Board of Directors consists of nine members: five members appointed by the Governor, two members appointed by the Senate Committee on Rules, and two members appointed by the Speaker of the Assembly. The Board of Directors oversees planning, construction, and operation of the nation's first high-speed rail system.

Statute provides for an independent peer review group that was established for the purpose of reviewing the planning, engineering, financing, and other elements of the Authority's plans and issuing an analysis of appropriateness and accuracy of the Authority's assumptions and an analysis of the viability of the Authority's financing plan.

Recent media coverage suggested that the costs and project milestones estimated for the project could be too optimistic. In particular, one story pointed to a right-of-way study for the Palmdale-Burbank construction segment that showed that the costs and construction timeframes would be much higher than projected in High Speed Rail Authority reports.

How the High Speed Rail Authority Reports Information.

The High Speed Rail Authority biannually provides an overview of overall project costs and schedule through an update to its "Business Plan" which is a comprehensive document that covers all aspects of the project costs, the projected ridership, the station design, and the funding options.

Pursuant to Trailer Bill language adopted in the 2015 budget, the Authority publishes a shorter Project Update document during years when the Business Plan is not updated.

The Subcommittee is expected to receive a Draft 2016 Business Plan sometime before March 1, 2016.

Information from the 2015 Legislative Update

For reference, the 2015 Project Update provided the following information regarding the High Speed Rail's route, schedule, and cost estimates:

The Route:



The Construction/Service Schedule:

Section	Length (approx)	Endpoints	Service Description	Planning Schedule
Initial Operating Section (IOS)	300 miles	Merced to San Fernando Valley	<ul style="list-style-type: none"> → One-seat ride from Merced to San Fernando Valley. → Closes north-south intercity rail gap, connecting Bakersfield and Palmdale and then into Los Angeles Basin. → Begins with construction of up to 130 miles of high-speed rail track and structures in Central Valley. → Private sector operator. → Ridership and revenues sufficient to attract private capital for expansion. → Connects with enhanced regional/local rail for blended operations with common ticketing. 	2022
Bay to Basin	410 miles	San Jose and Merced to San Fernando Valley	<ul style="list-style-type: none"> → One-seat ride between San Francisco and San Fernando Valley.¹³ → Shared use of electrified/upgraded Caltrain corridor between San Jose and San Francisco Transbay Transit Center. → First high-speed rail service to connect the San Francisco Bay Area with the Los Angeles Basin. 	2026
Phase 1	520 miles	San Francisco to Los Angeles/Anaheim	<ul style="list-style-type: none"> → One-seat ride between San Francisco and Los Angeles.¹³ → Dedicated high-speed rail infrastructure between San Jose and Los Angeles Union Station. → Shared use of electrified/upgraded Caltrain corridor between San Jose and San Francisco Transbay Transit Center. → Upgraded Metrolink corridor from LA to Anaheim. 	2028

Section	Receive Record of Decision	Complete Construction
Merced - Fresno	BASELINE REVISED June 2012 COMPLETED	2018 ¹⁴
Fresno - Bakersfield	BASELINE REVISED December 2012 COMPLETED	2018
San Francisco - San Jose ¹⁵	BASELINE REVISED December 2014 2017	2028
San Jose - Merced	BASELINE REVISED December 2013 2017	2026
Bakersfield - Palmdale	BASELINE REVISED February 2014 2017	2021
Palmdale - Burbank ¹⁶	BASELINE REVISED October 2013 2017	2022
Burbank - Los Angeles ¹⁶	BASELINE REVISED October 2013 2017	TBD
Los Angeles - Anaheim	BASELINE REVISED December 2014 2017	TBD
Merced - Sacramento (Phase 2)	BASELINE REVISED TBD TBD	TBD
Los Angeles - San Diego (Phase 2)	BASELINE REVISED TBD TBD	TBD

The Estimated Costs:

TABLE 2: CONSTRUCTION COST BY SECTION			
Baseline Budgets by Section		Cost Alignment Estimates (Constant Dollars*)	Cost Alignment Estimate (YOE)
San Francisco - San Jose	2012 Business Plan	\$5,699	\$8,363
	2014 Business Plan	\$5,813	\$7,960
San Jose - Merced	2012 Business Plan	\$14,042	\$19,757
	2014 Business Plan	\$14,332	\$18,978
Merced - Fresno	2012 Business Plan	\$5,214	\$5,482
	2014 Business Plan	\$5,392	\$5,972
Fresno - Bakersfield	2012 Business Plan	\$6,705	\$7,711
	2014 Business Plan	\$6,927	\$7,813
Bakersfield - Palmdale	2012 Business Plan	\$8,092	\$9,533
	2014 Business Plan	\$8,359	\$9,418
Palmdale - Los Angeles	2012 Business Plan	\$13,100	\$16,704
	2014 Business Plan	\$13,468	\$16,627
Los Angeles - Anaheim	2012 Business Plan	\$591	\$815
	2014 Business Plan	\$603	\$825
TOTAL	2012 Business Plan	\$53,443	\$68,365
	2014 Business Plan	\$54,894	\$67,593

*2011 dollars are used for 2012 Business Plan estimates. 2013 dollars are used for 2014 Business Plan estimates.
(Dollars in millions)

So Far, Costs Have Been Lower than Projected

While it is still very early into the construction phase of the project, the State has awarded three contracts for portions of the Initial Construction Segment, all three of which have been awarded for lower than the costs projected in Authority documents.

Segment	Engineers Estimated Construction Costs	Best Value Bid
Construction Package 1	\$ 1.2 - 1.8 billion	\$ 985.1 million
Construction Package 2-3	\$ 1.5 - 2 billion	\$ 1.2 billion
Construction Package 4	\$ 400 - 500 million	\$ 347.6 million

These construction contracts are a key cost driver for the total cost of the initial operating segment. For these three construction packages, awarded bids are running 13–37 percent below the projected costs, representing \$0.4 -1.6 billion avoided costs assumed in the initial project documents. While these contracts are still early in construction and could have unforeseen cost overruns, the Authority notes that its existing estimates contain contingency amounts to accommodate these unforeseen costs.

Study Referenced in Media Obsolete

Much of the discussion regarding the High Speed Rail Cost estimates were driven by a newspaper article questioning the validity of the expenditures used by High Speed Rail which cited a cost estimate performed by Parsons Brinckerhoff during 2013 on the various operating segments.

The newspaper article likely refers to a draft PowerPoint presentation prepared for preliminary discussions about the 2014 Business Plan. According to the Authority:

The article misrepresents both the nature of this document – a slide deck marked “Draft” – and how it played into the process of updating cost estimates. Developing cost estimates, particularly for a project that will be built over a period of years and with many undefined elements, involves the consideration of a number of variables. We look at a variety of factors that can lead to high or low case estimates. In the end, the numbers used for project planning and management are based on best estimates and the most valid assumptions.

Just as with the development of legislation, over the course of time, there will be multiple iterations of projections that are discussed, deliberated, and ultimately decided. The information in this draft document was preliminary, still in development and subject to review, clarification, and refinement. The (document), which we assume the reporter was referring to, was one of scores of analyses and assessments considered in the development of our cost projections.

STAFF COMMENTS

It is impossible to predict every cost, schedule, and challenge for even a small capital project, but that task becomes more difficult with a project as massive, lengthy, and complex as California's High Speed Rail System. The Authority has crafted projections that attempt this task, which have, so far, overestimated costs for the project.

The Subcommittee could consider the following questions for the panelists:

- What standards can be used to assess your estimates? What confidence level do you have in the cost estimates presented by the Authority in your documents?
- What factors, internal or external, are likely to affect the milestones in the business plan?
- How knowledgeable is the Authority to handle the engineering challenges associated with building tunnels, viaducts, and tracks in the expected right-of-way?

The Subcommittee will receive an updated Draft 2016 Business Plan sometime before March 1st. This plan will be heard and discussed at a subsequent hearing later in the 2016 budget process.