



BRIEFING: APRIL 14, 2015, BOARD MEETING AGENDA ITEM #7

TO: Chairman Richard and Board Members

FROM: Jon Tapping, Director of Risk Management and Project Controls

DATE: April 14, 2015

RE: Consider Adopting the CP 2-3 Design-Build Contract Risk-Informed Contingency

Introduction

At its August 1, 2013 meeting, the California High-Speed Rail Authority (Authority) Board adopted Resolution #HSRA 13-20, establishing policies and procedures pertaining to the use of contingencies on Construction, Design-Build, and Design-Build-Operate contracts. As part of Resolution #HSRA 13-20, the Authority adopted a risk-based, informed approach in determining appropriate levels of contingency.

At its January 13, 2015 meeting, through Resolution #HSRA 15-01, the Board approved Dragados/Flatiron/Shimmick as the Apparent Best Value Proposer for the Construction Package 2-3 Design-Build Services contract, and authorized the CEO to undertake all that is necessary to negotiate and execute the contract for Construction Package 2-3 (CP 2-3).

Authority staff now seeks the Board's approval to establish the construction contingency for CP 2-3, pursuant to the Board's policy.

Background

In the briefing memorandum provided to the Board in support of Resolution #HSRA 13-20, the following was stated:

“Contingency provides a level of protection to the project budget that allows for the successful completion of the project in the face of uncertainty and risk, allowing the project manager to respond to probable, if not precisely quantifiable, variations in the project cost in a timely manner to keep the project moving forward.”

Authority staff has conducted an exhaustive risk-based informed investigation of the facts and circumstances that exists relative to design and construction for CP 2-3. Staff has followed best practice procedures and the process outlined in the applicable Board policy. While a detailed description of the specific items included in the contingency is not in the best interest of the

Authority and the State of California, each item currently known to the Authority which is appropriate to include in a risk analysis has been carefully considered. During the course of construction of CP 2-3, as anticipated risks are resolved, staff will report to the Board on appropriate adjustments to the project contingency.

This contingency is tied to the project, is not related to the contractor, and will be managed by the Authority.

Following the policies and procedures established by the Board in Resolution #HSRA 13-20, Authority staff has developed a construction contingency of \$261,200,000 as appropriate at this time for CP 2-3.

The original budget for work to be completed on CP2-3 accommodated for approximately \$230 million in contingency. The Authority's risk informed contingency analyses indicate that a \$230 million contingency would result in approximately a 70 percent confidence level. Potential costs related to intrusion protection (barrier walls, berms, etc.), which were not completely scoped in earlier estimates, are still part of ongoing discussions with the UP and BNSF railroads today. The Authority's risk-informed contingency analysis accounts for these intrusion protection costs among other risk factors for a total of \$262 million at the 90 percent confidence level. To allocate that \$262 million from the budget, the original \$230 million contingency will remain for CP2-3 and an additional \$32 million will be allocated to CP2-3 contingency from the program's unallocated contingency. This \$32 million allocation will not change the bottom line to the current program budget.

An analysis of the approved contingency for CP1 and its percentage of the accepted capital cost bid of CP1 are quite comparable to the recommended contingency for CP2-3.

Recommendation

Staff recommends that the Board adopt the amount of \$261,200,000 as the construction contingency for CP 2-3.

Attachment

- Resolution #HSRA 13-20
- Resolution #HSRA 15-01
- Draft Resolution #HSRA 15-08