



TONI G. ATKINS
SPEAKER OF THE ASSEMBLY

November 3, 2015

Honorable Kristen Olsen
Assembly Republican Leader
State Capitol Room 3104
Sacramento, CA 95814

Dear Assembly Republican Leader Olsen:

In response to your letter of October 28, I am forwarding the enclosed materials from the California High Speed Rail Authority (HSRA) which address the newspaper article that served as the basis for your letter.

High Speed Rail is an issue of interest to legislators throughout all of California, and, as a result, oversight mechanisms have already been put in place. That oversight will continue in January through the Assembly Budget Subcommittee on Resources and Transportation.

Additionally, the Assembly will be undertaking a broader range of oversight activities in 2016, and High Speed Rail and other key issues will be reviewed through that enhanced process. We will have more information on this approach when we reconvene in January.

Finally, the main point of your letter and subsequent media activities was to call for subpoenas for a host of HSRA documents. Such a request is premature.

Given HSRA's willingness to cooperate, both in terms of the information they just provided, their agreeing to appear at upcoming hearings, and the committee meetings that they have already opened to the public and legislative staff (which I hope the Republican Caucus policy staff have been attending for your benefit), subpoenas are not appropriate at this time.

As you know, subpoenas are a tool the Legislature has used only sparingly over the years. Sacramento has rightly earned praise for rising above the kind of "gotcha" tactics too often on display in Washington, D.C., and I am confident you join me in wanting to ensure that remains the case.

Honorable Olsen
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Rest assured, however, that regardless of the merits or motives surrounding this request, as the process continues, if the need for subpoenas does, in fact, become apparent, the issue can be revisited.

Thank you for your letter. I look forward to your active and thoughtful participation in the important oversight efforts the Assembly is undertaking.

Warmly,



TONI G. ATKINS
Speaker of the Assembly
78th Assembly District

cc: Assemblymember Tom Lackey
Assemblymember Jim Patterson
Assemblymember Scott Wilk

October 30, 2015

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The Honorable Toni G. Atkins
Assembly Speaker
California Assembly
State Capitol, Room 219
Sacramento, CA 95814

Dear Speaker Atkins:

We are writing in response to your inquiry regarding the October 24, 2015 *Los Angeles Times* article, "Special Report: \$68-billion California bullet train project likely to overshoot budget and deadline targets." The article in question gave readers a dramatic, but wholly false impression of where our program stands in terms of costs and technical hurdles. Because of the Legislature's important role in conducting oversight of the program, we want to address several key issues that were either presented in a misleading manner or were incorrect, resulting in a rather distorted account of the program.

First and foremost, before turning to the article itself, as you know, the Legislature maintains strong oversight of the High-Speed Rail program through several mechanisms. Senate Bill 1029, which authorized expenditures for the program, contains strict reporting requirements. Our most recent SB 1029 report, submitted to the Legislature on March 1, 2015, lays out in great detail the progress and challenges faced by the program. You also have the benefit of an independent Peer Review Group which reports to the Legislature and with whom we maintain regular interactions so that they may independently advise you on project status and challenges. Beyond that, at the Legislature's behest, we have opened our Finance and Audit Committee meetings to the public which legislative staff often attends. The metrics and reports of that committee are available to all through our website.

To correct false impressions that may have been generated by the article's content we offer the following clarifying information about our program.

Construction Costs

The article implies that the program is or will be over budget in construction with a thin contingency. In fact, the first three construction packages are running well *under* budget. Construction packages 1 and 2-3 are under contract for aggregate amounts that are hundreds of millions of dollars below budget estimates. These contract savings are due to a combination of a competitive bidding environment and opportunities for lower contractor bids created by the design-build project delivery method.

EDMUND G. BROWN JR.
GOVERNOR



The program's capital cost estimates include specific contingencies of up to 25 percent, not the reported 10 percent figure in the article. Additionally, there is a 5 percent "unallocated" contingency covering construction of the entire program. Our construction contracts contain risk based contingencies of over 15 percent. So, not only are we currently running under budget, but we have healthy contingencies built into our budgets and we manage against those.

Tunneling Challenges

The article also discusses the challenges of tunneling. When the Legislature and then the voters approved Proposition 1A, the basic route was established, including the connections through the Tehachapi and San Gabriel mountain ranges. Our responsibility is to find the most efficient and cost-effective way to create those connections.

In fact, the challenges of building tunnels in mountainous and seismically active areas are well-known and are being thoroughly addressed with particular focus on keeping the program within cost and schedule projections. We have some of the world's leading tunneling experts working on our program. International companies that built rail tunnels through the Pyrenees Mountains and the Swiss Alps are members of our team. We have conducted symposia to learn from the leading tunneling experts around the world, and have engaged with Japanese and Spanish experts who have been part of the construction of tunnels through similar conditions. None of those experts were included in the newspaper story, despite the fact that they were made available to the reporter. We are happy to make these same experts available to you, your colleagues, and your staff.

Our technical consultants have reiterated their comfort level with our schedule and approach. California has a vast array of tunnels for transit systems, roadways, and of course the State Water Project. These tunnels transect faults and cross mountain ranges. Modern tunneling technology has advanced considerably since even these tunnels were constructed. We and our array of international experts are quite confident that we understand the issues surrounding tunneling and that our schedule is realistic.

Infrastructure Program Risks

The article contained extensive comments and discussion of potential future cost increases based on other infrastructure projects. Unfortunately it glossed over the only actual data points dealing directly with our program – the first construction contracts have come in hundreds of millions of dollars below estimates.

It quotes the work of Dr. Flyvbjerg of Cambridge University, a renowned expert on the risks associated with large scale infrastructure projects. What it did not say was that we work very closely with Dr. Flyvbjerg, and based on his work, we have developed what may be the most sophisticated risk management system associated with any public infrastructure project to date. Our risk management program is constantly updated, monitoring and managing thousands of risk elements to assess their impact on schedule and cost. This information is routinely discussed in our Finance and Audit Committee meetings, but we would be pleased to brief you further on this very comprehensive approach, at your convenience.

Allegations of Hidden Reports

The article refers to a 2013 “report” by the state’s main project management contractor, Parsons Brinkerhoff (PB), where estimates were provided that the cost of building the first phase from Burbank to Merced had risen 31% to \$40 billion and projected that the cost of the entire project would rise at least 5%. While the specific report referenced in the article has not been provided to us by the newspaper reporter, we believe it is a reference to a draft PowerPoint presentation prepared for preliminary discussions about the 2014 Business Plan. Assuming this is the case, 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 enclosed 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. That full documentation behind the final cost estimates was provided at the time of the release of the business plan and is available at:

http://hsr.ca.gov/About/Business_Plans/2014_Business_Plan.html

The Authority under the present leadership has always been forthcoming about the costs and risks of the program. We did not hesitate, upon assuming leadership of the program in 2011, to announce estimated program costs that were sharply higher than previous estimates. In addition to our highly sophisticated internal audit functions, we have been subject of numerous external audits, including a year-long review by the U.S. Governmental Accountability Office, which found that our capital cost projections were substantially consistent with applicable federal guidelines. We will continue to be open with you, your colleagues in the Legislature, and with the public about where the program stands.

As of today, the program is making steady progress, employing hundreds of people in an area of the state with the highest unemployment and poverty rates. We are meeting our goals that 30 percent of contract dollars flow to small businesses in California and three percent to businesses owned by disabled veterans. Our first construction segment in the Central Valley will not only serve as the spine of the High-Speed Rail system, but will also eliminate 55 at-grade railroad crossings as we build, which will markedly improve public safety by preventing accidents, injuries, and deaths.

We cannot guarantee that there will not be challenges or setbacks in the future. Yet, contrary to all the misstatements and manufactured pessimism, we have the team and tools in place to deliver the nation’s first high-speed rail system to the people of California within the budget guidelines we’ve adopted and on our expected schedule.

Letter to Speaker Atkins re: Los Angeles Times Article

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If you wish to discuss the program further, please don't hesitate to contact us or Barbara Rooney, Deputy Director of Legislation, at (916) 330-5636 or Barbara.Rooney@hsr.ca.gov.

Sincerely,



DAN RICHARD
Chairman
California High-Speed Rail Authority



JEFF MORALES
Chief Executive Officer
California High-Speed Rail Authority

Attachment



2014 BUSINESS PLAN CAPITAL COST ESTIMATE UPDATE

October 3rd 2013

2014 BUSINESS PLAN ESTIMATE SUMMARY COSTS BY PHASE

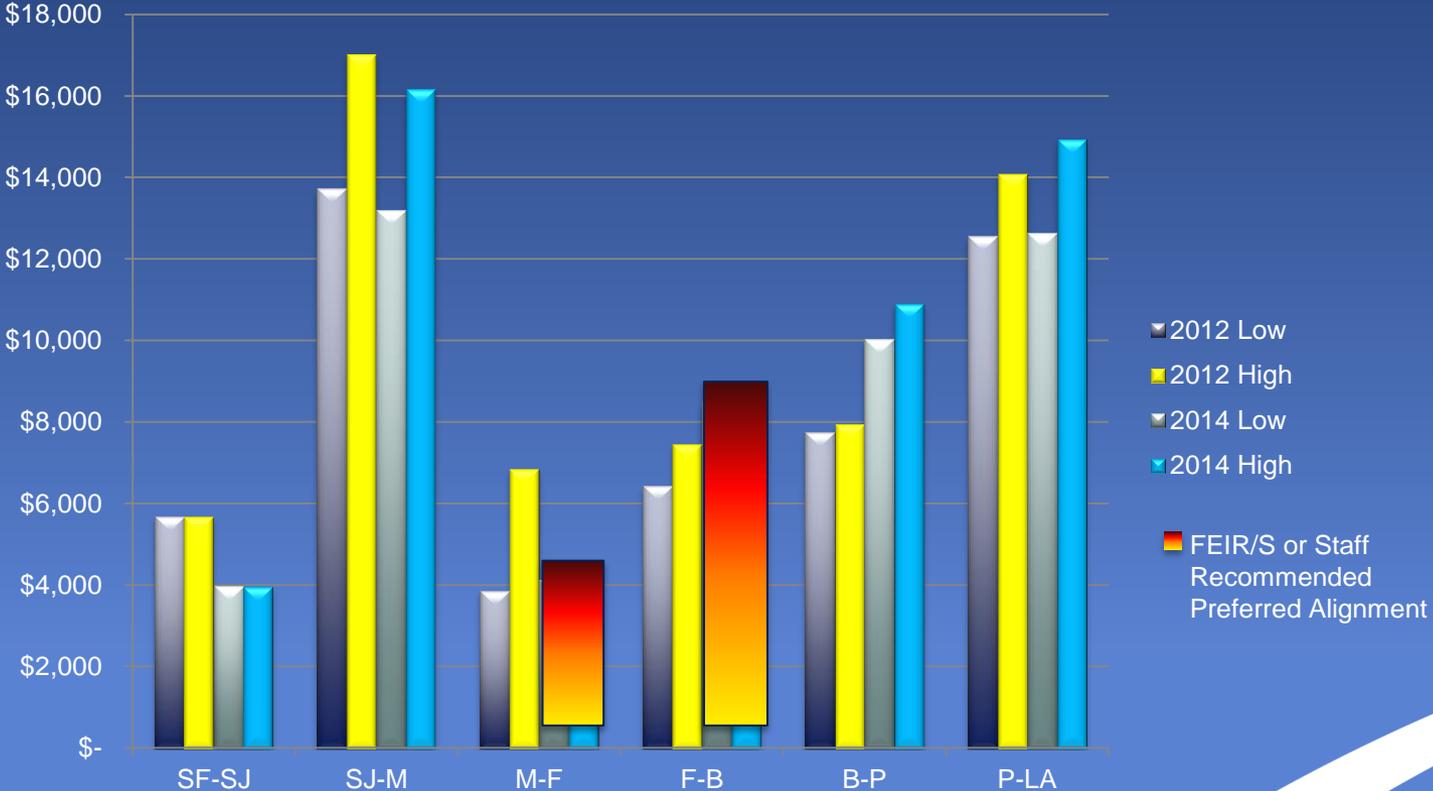
- High and Low Costs (millions, 2012 \$\$)

PHASE	2012 Low		2012 High		2014 Low		2014 High	
FCS	\$	5,444	\$	5,444	\$	5,672	\$	5,672
IOS	\$	27,344	\$	31,923	\$	35,754	\$	38,236
B2B	\$	42,042	\$	49,904	\$	49,984	\$	55,439
PH 1	\$	54,371	\$	63,441	\$	56,942	\$	63,091

- Phase I Low Cost increased \$2.6 billion or 4.7%
- Phase I High Cost decreased \$0.3 billion or 0.5%

2014 BUSINESS PLAN ESTIMATE SUMMARY COSTS BY SECTION

- High and Low Costs (millions, 2012 \$\$)



2014 BUSINESS PLAN ESTIMATE DESIGN DEVELOPMENT STAGE

Environmental Section	Design Stage 2012 BP	Design Stage 2014 BP
San Francisco to San Jose	5% Design	5% Design
San Jose to Merced	Draft 15% Design	Draft 15% Design
Merced to Fresno	Final 15% Design	15% - PE4P Design
Fresno to Bakersfield	Final 15% Design	15% - PE4P Design
Bakersfield to Palmdale	5% Design	5% - Draft 15% Design
Palmdale to Los Angeles	5% Design	5% Design

2014 BUSINESS PLAN ESTIMATE ALIGNMENT ALTERNATIVES

Environmental Section	Low Cost Alignment Alternative	High Cost Alignment Alternative
San Francisco to San Jose	Blended Operation	Blended Operation
San Jose to Merced	East of UPRR /Pacheco Pass SR152/Henry Miller Avenue 24	US101 trench/Pacheco Pass/Henry Miller Avenue 21
Merced to Fresno	Hybrid/Avenue 24 Alternative	Hybrid/Avenue 24 Alternative
Fresno to Bakersfield	Hanford East/Wasco- Shafter/Bakersfield Hybrid elevated alignment	Hanford East/Wasco- Shafter/Bakersfield Hybrid elevated alignment
Bakersfield to Palmdale	Oak Creek Alignment*	Tehachapi Alignment
Palmdale to Los Angeles	SR14West/Santa Clarita South/elevated LAUS approach	SR14East/Santa Clarita North/tunnel LAUS approach

*Low cost alignment was developed as a derivative of the high cost option reflecting potential cost saving measures being implemented in the Oak Creek alignment alternative currently under study.

2014 BUSINESS PLAN ESTIMATE SIGNIFICANT ASSUMPTIONS

- Unit Price Elements reflect 25% markup for Contractor's overhead and profit;
- Allocated contingencies range from 10% to 25% per cost category;
- Unallocated contingency is assumed at 5% of construction and ROW acquisition costs;
- Soft costs assumed as % of construction costs:
 - 2% of total Construction for PE/E
 - 3% of total Construction for PM
 - 6% of total Construction for Final Design (3% for tunnels)
 - 4% of total Construction for CM
 - 0.5% of total Construction for Agency Costs
 - 6% of Systems and Electrification for Testing
- Temporary facilities and indirect costs at 4%

2014 BUSINESS PLAN ESTIMATE SIGNIFICANT INCLUSIONS

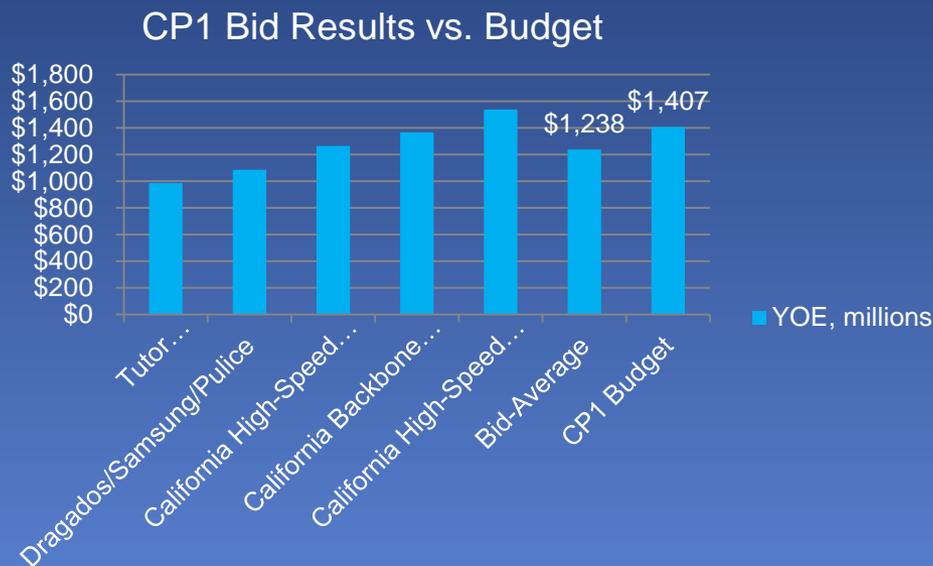
- CP1 award costs including provisional sums and approved contingency;
- SR 99 relocation costs per Caltrans agreement (\$225.9 million);
- CP1 agreements with 3rd parties (\$80 million);
- 'Sunk costs' (PM and PE/E, not including Authority's costs) from FY06/07 through FY12/13 (\$497 million);
- **Projected cost for PE/E effort going forward (\$539 million);**
- Connection to the Utility Grid costs (\$960 million);
- 'Early Projects' allowance for LA-ANA (\$519 million).

2014 BUSINESS PLAN ESTIMATE SIGNIFICANT EXCLUSIONS

- Escalation to Year of Expenditure;
- Overtime or accelerated schedule;
- Post-Construction Costs;
- Costs to implement interim service over FCS.

2014 BUSINESS PLAN ESTIMATE SIGNIFICANT ADJUSTMENTS

- Market Conditions – CP1 Bid Average Adjustment



- CP1 bid-average price is 88% of the CP1 Budget value;
- Adjustment factor of 12% was applied on the UPEs for similar project-wide scope;
- Accounts for \$2.3 billion adjustment to Phase 1 costs in 2012

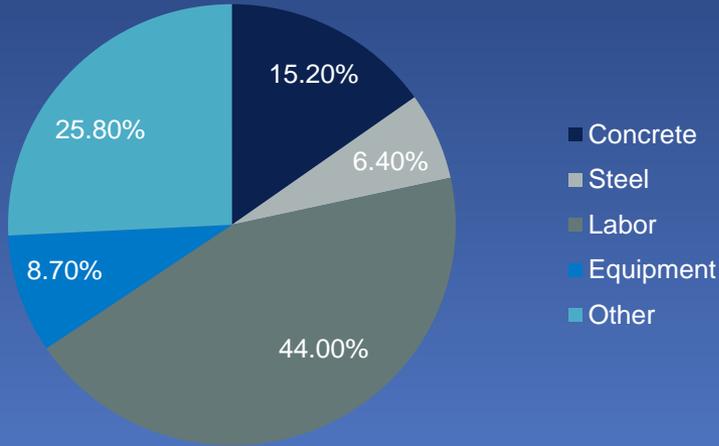
2014 BUSINESS PLAN ESTIMATE SIGNIFICANT ADJUSTMENTS

- Escalation to Base Year
 - Estimate is based on 2009 pricing
 - Escalation has been per ENR published CCIs:
 - Industry recognized historic escalation index
 - Based on a hypothetical assembly of:
 - 200 hour of common labor
 - 2,500 lb of structural steel
 - 1.126 tons of portland cement
 - 1,088 ft of 2x4 lumber



2014 BUSINESS PLAN ESTIMATE SIGNIFICANT ADJUSTMENTS

- Escalation by Component Weights*

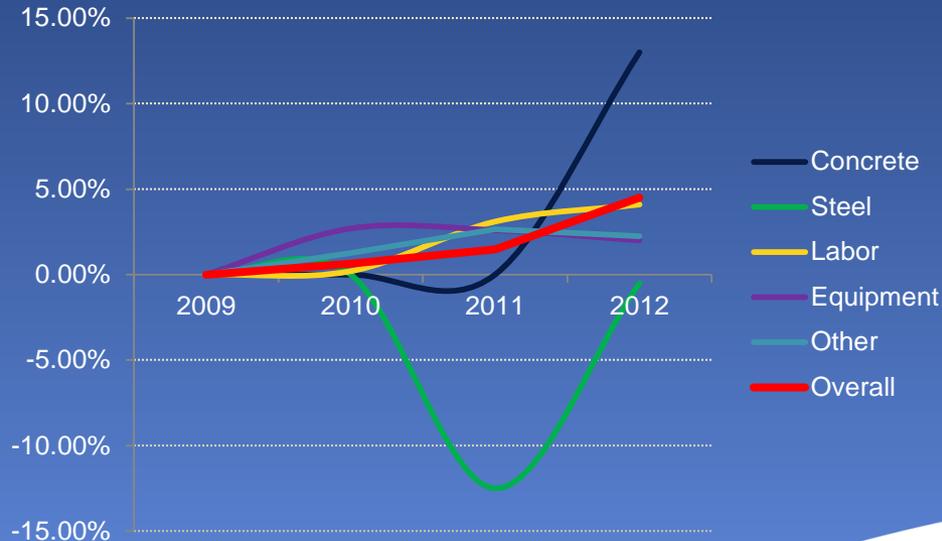


*Based on rail transit projects nation-wide.

Price Indexes:

- Steel – ENR price index
- Concrete – ENR price index
- Equipment - BLS data
- Labor – Prevailing wage agreements
- Other – Consumer Price Index

Aggregated Escalation Factor



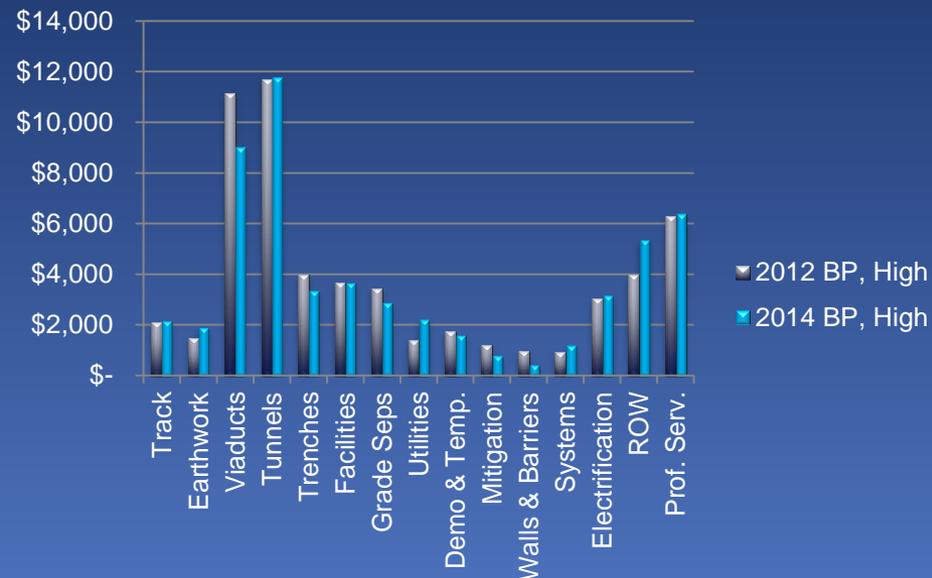
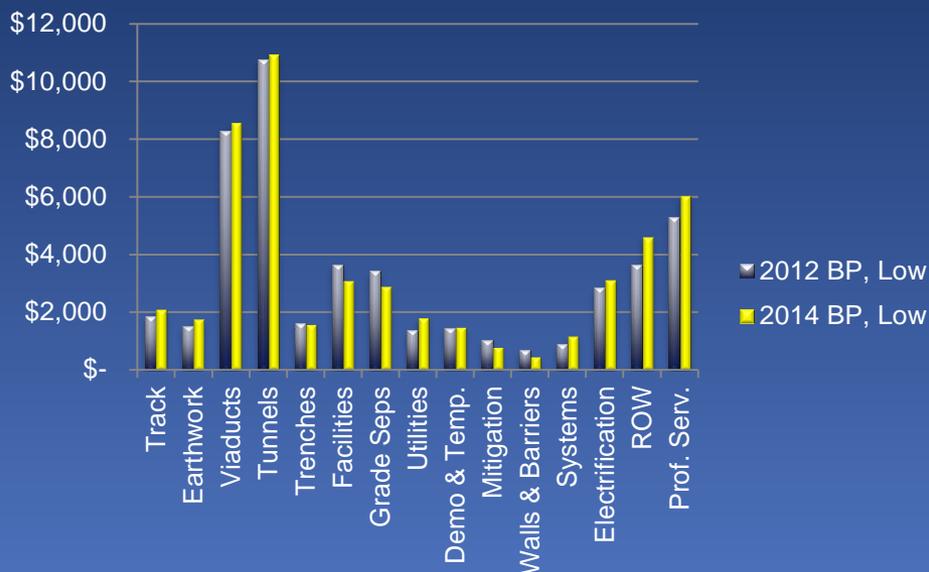
2014 BUSINESS PLAN ESTIMATE SIGNIFICANT ADJUSTMENTS

- Escalation Index – ENR vs. Component Weights
 - Reflects an escalation approach targeting linear rail construction
 - Founded on published cost indexes in California and nationally
 - **Accounts for \$370-\$410 million increase to Phase 1 costs in 2012 dollars.**

Compound Escalation Rates



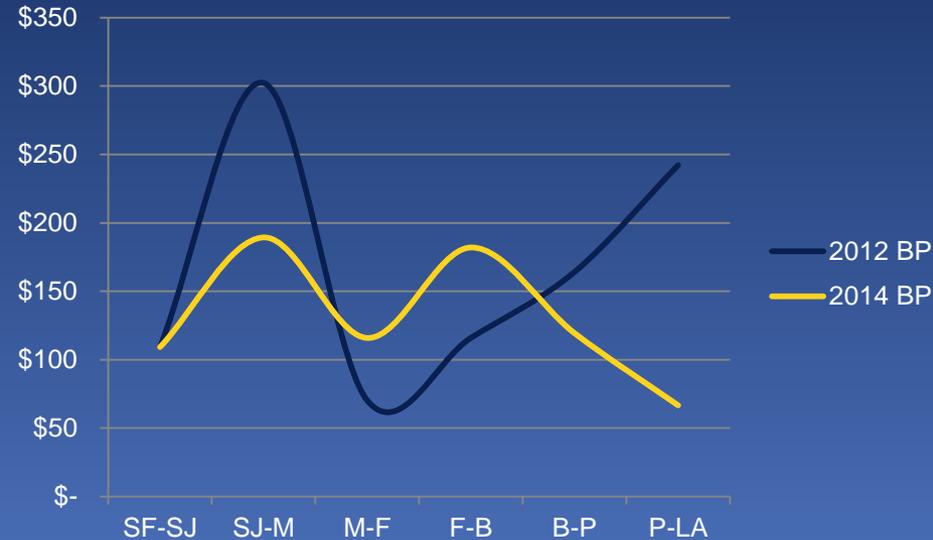
2014 BUSINESS PLAN ESTIMATE COMPARISON TO 2012 BY CATEGORY



Env. Section	2012 Low	2012 High	2014 Low	2014 High
SF-SJ	\$ 5,686	\$ 5,686	\$ 3,977	\$ 3,977
SJ-M	\$ 13,733	\$ 17,017	\$ 13,195	\$ 16,168
M-F	\$ 3,863	\$ 6,859	\$ 4,110	\$ 4,110
F-B	\$ 6,425	\$ 7,460	\$ 8,479	\$ 8,479
B-P	\$ 7,733	\$ 7,953	\$ 10,023	\$ 10,906
P-LA	\$ 12,557	\$ 14,092	\$ 12,645	\$ 14,937

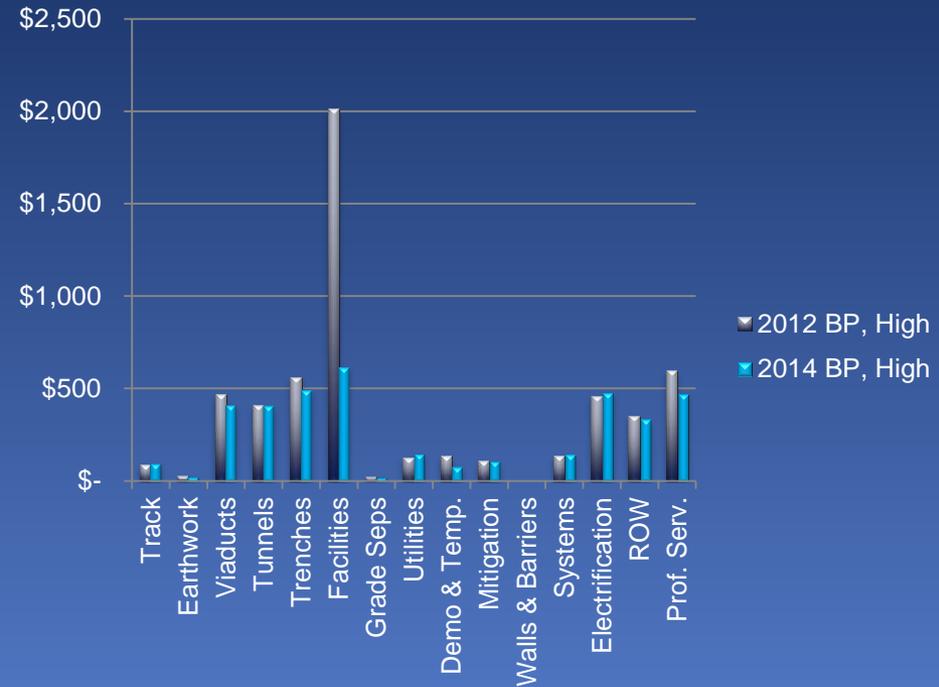
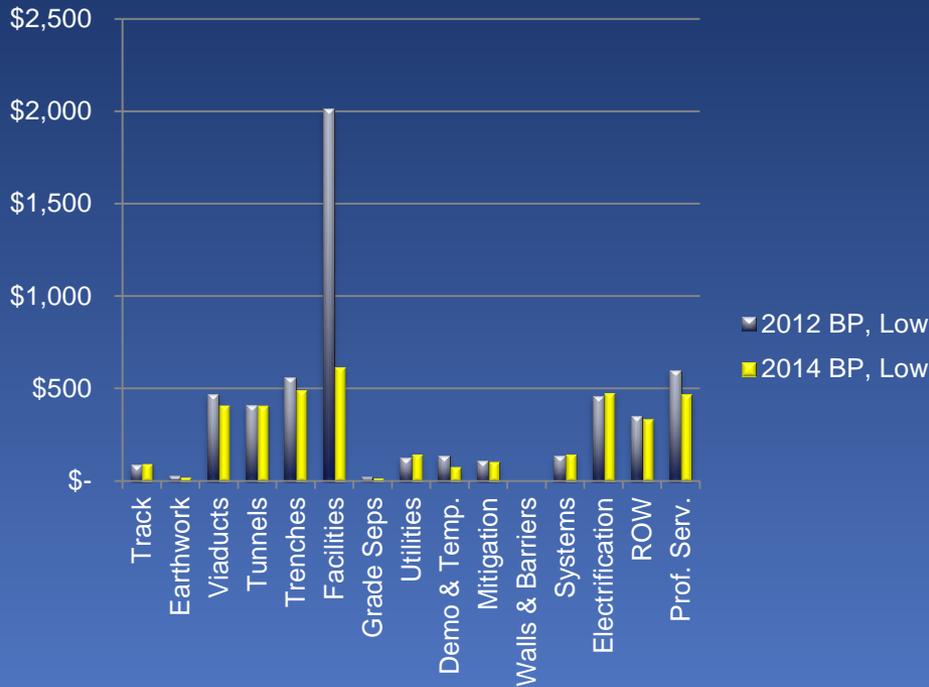
2014 BUSINESS PLAN ESTIMATE PROGRAM-WIDE UPDATES

- Environmental Mitigation
 - Based on scope definition in M-F section;
 - Adjusted for level of development;
 - Adjusted for relation to grade.
- ROW Acquisition



Section	ROW Cost Update	Contingency
SF-SJ	June, 2011	20%
SJ-M	June, 2011	10%
M-F	April, 2013	25%
F-B	August, 2012	10%
B-P	June, 2013	10%
P-LA	April, 2013	25%

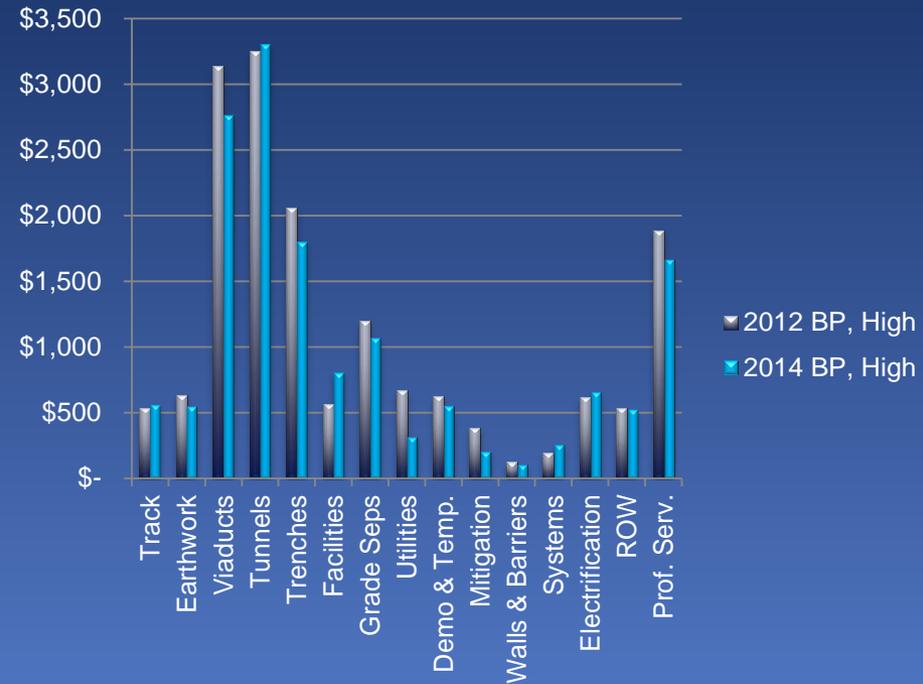
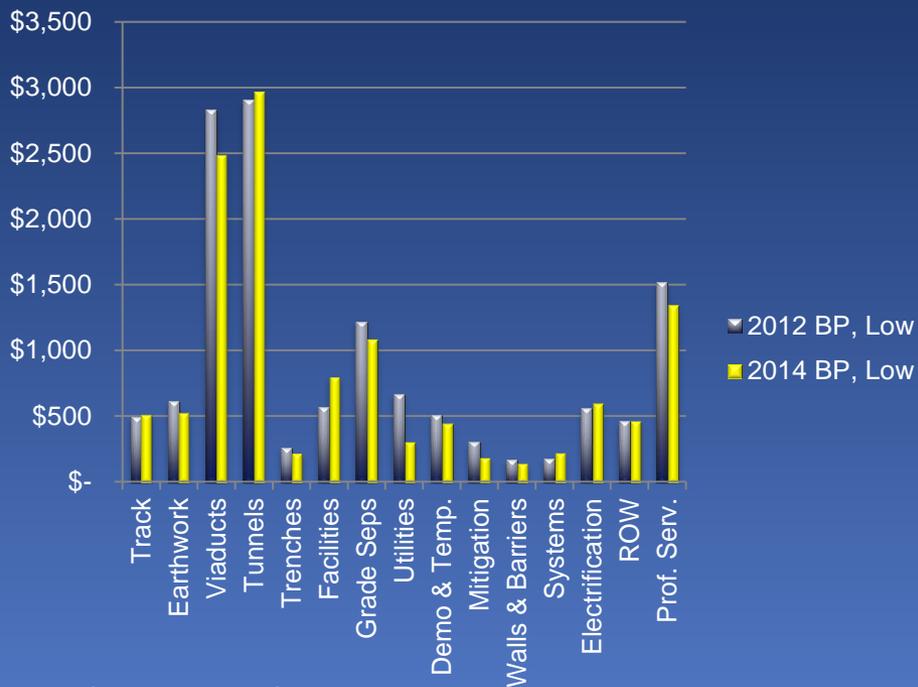
2014 BUSINESS PLAN ESTIMATE SAN FRANCISCO – SAN JOSE



- **\$1,710 million reduction:**

- Reduction in Transbay allowance to \$500 million
- Transfer of TSMF to SJ-M section
- Reductions in viaducts and walls due to CP1 adjustment

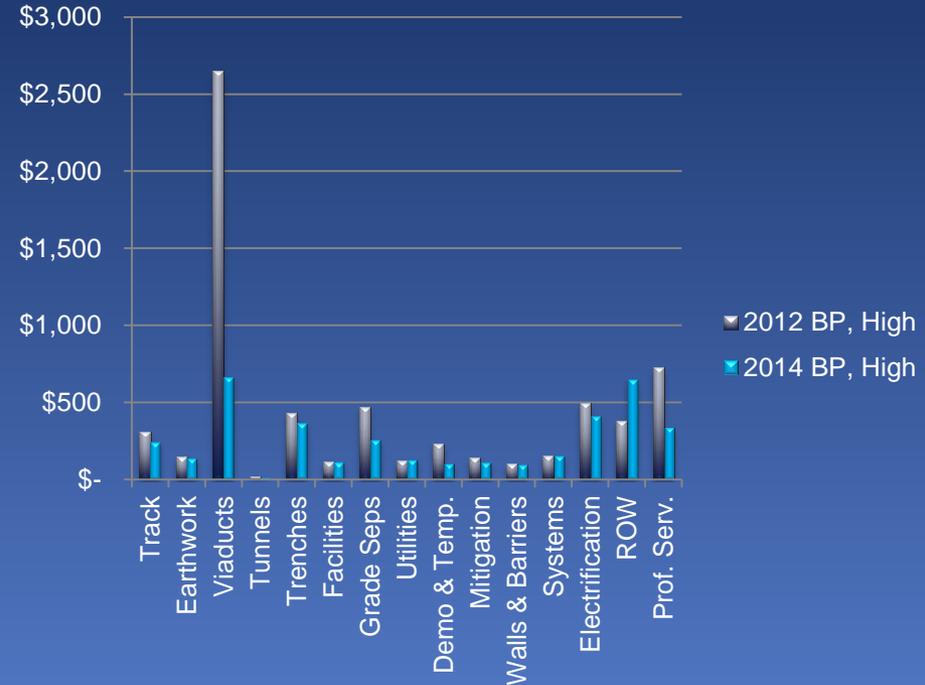
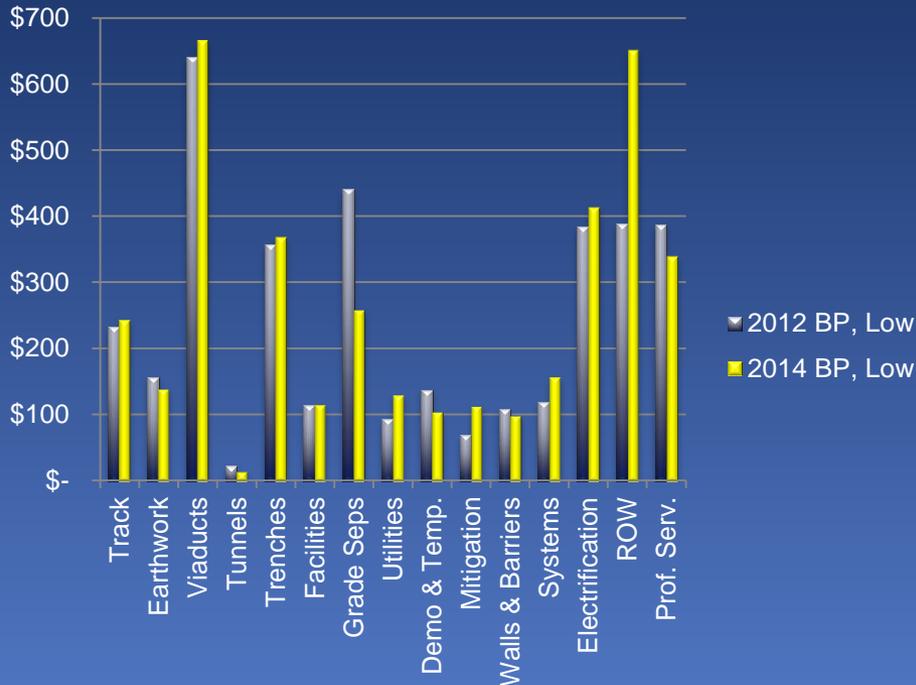
2014 BUSINESS PLAN ESTIMATE SAN JOSE - MERCED



- **\$540 - \$850 million reduction:**

- Reduction in viaducts due to CP1 adjustment
- Reduction in grade separations due to CP1 adjustment
- Reduction in utility relocations
- Reduction in mitigation due to tunneling
- Added Sunk Costs and PE/E allowance

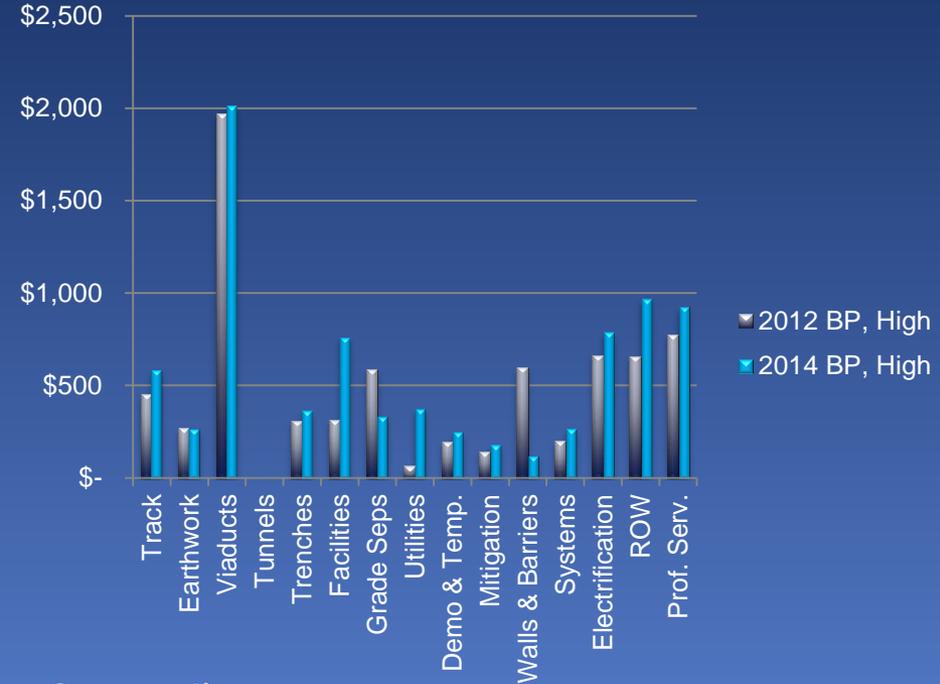
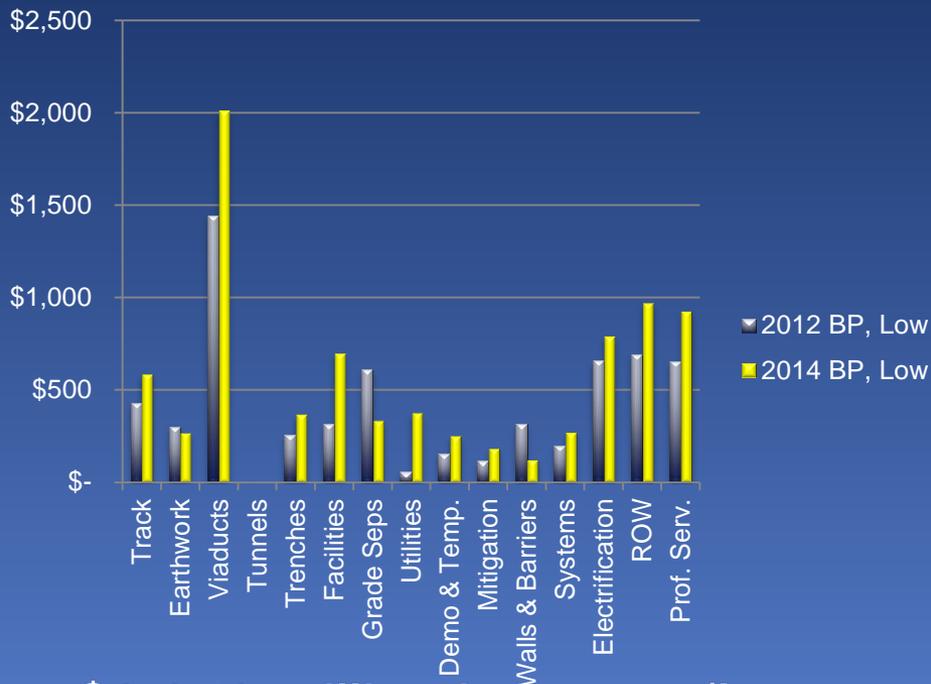
2014 BUSINESS PLAN ESTIMATE MERCED - FRESNO



- \$250 million increase to \$2,750 million decrease:

- Increase in ROW acquisition costs
- Reductions in grade separations due to CP1 adjustment
- Significant cost reduction by adoption of Hybrid Alternative

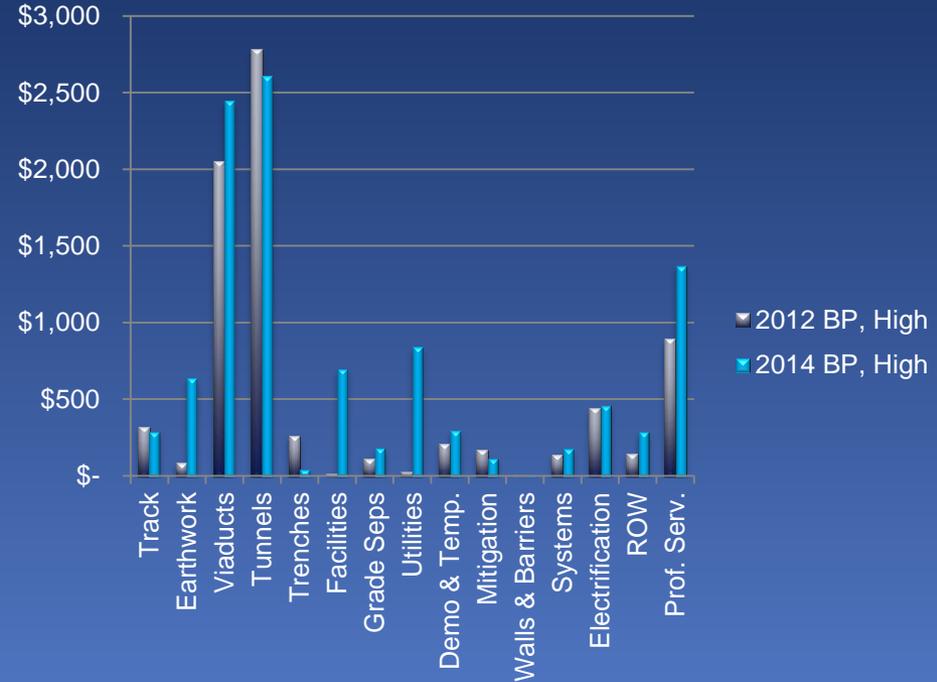
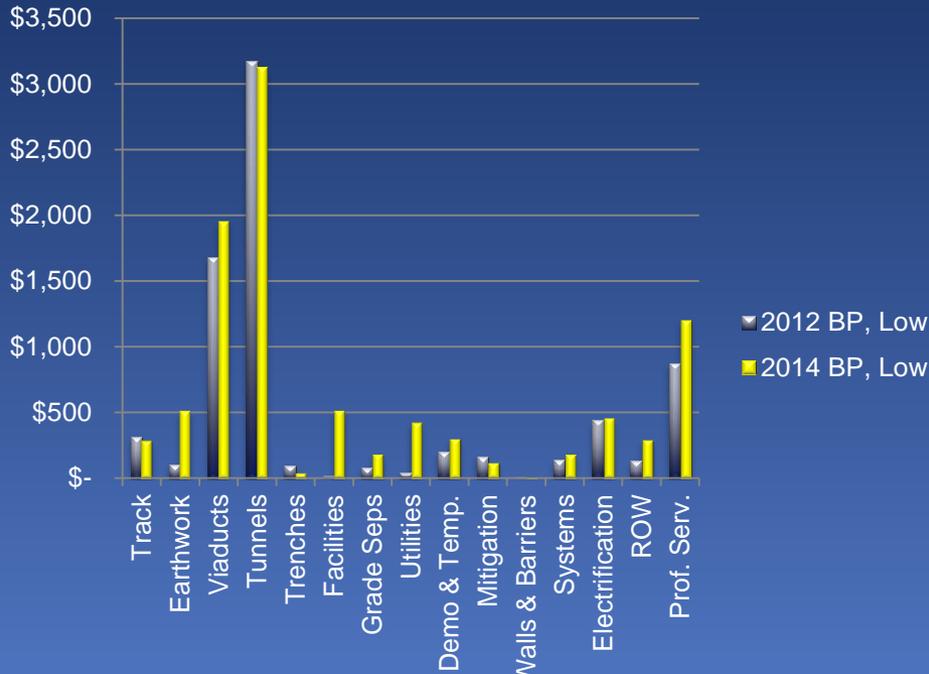
2014 BUSINESS PLAN ESTIMATE FRESNO - BAKERSFIELD



- **\$2,050 million increase (low vs. preferred):**

- More viaducts in through town alignments
- Allowance for taller viaducts over Kings River complex
- Added station access roadways at Hanford
- Increased Utilities and ROW acquisition costs
- Added Sunk Costs and PE/E allowance

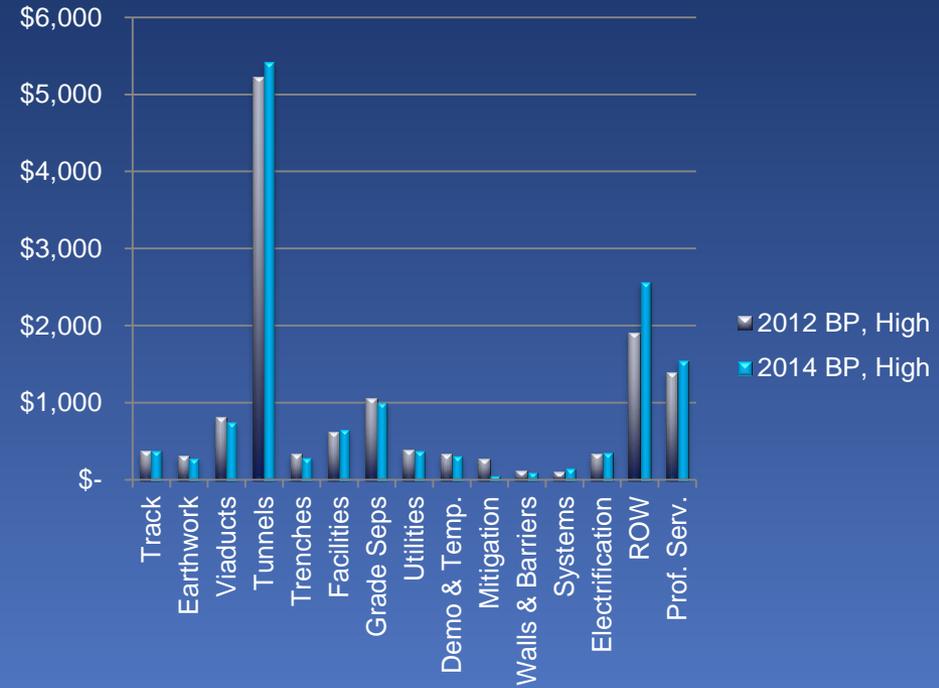
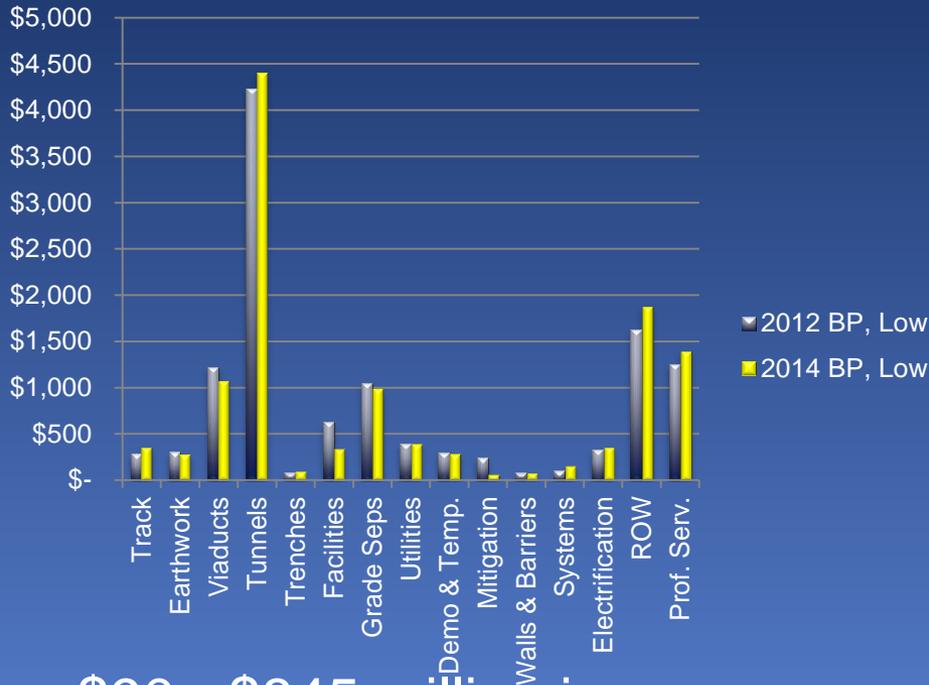
2014 BUSINESS PLAN ESTIMATE BAKERSFIELD - PALMDALE



- **\$2,290 - \$2,950 million increase:**

- Significant increases in cut/fill quantities
- Very tall and long span viaduct structures
- Access roadways, lateral and along alignment
- Included TSMF from P-LA section
- Increased Utilities and ROW acquisition costs
- Added Sunk Costs and PE/E allowance

2014 BUSINESS PLAN ESTIMATE PALMDALE – LOS ANGELES



- **\$90 - \$845 million increase:**

- Increase in tunneling costs due to unit price update
- Transfer of TSMF to B-P section
- Reduction in environmental mitigation due to tunneling
- Increased ROW acquisition costs
- Added Sunk Costs and PE/E allowance

2014 BUSINESS PLAN ESTIMATE FOLLOW UP ACTIONS

- Escalation to YOE – in P6 utilizing KPMG inflation rates
- Confirm limits of implementation stages – IOS terminus
- Arrange for Independent Cost Estimate (ICE)
- Implement sensitivity analyses where feasible

THANK YOU!
QUESTIONS?