

STATE OF CALIFORNIA

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BRIAN P. KELLY  
Acting Secretary

Office of Real Estate Appraisers  
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California Film Commission  
California Office of Tourism  
Infrastructure and Economic Development Bank  
Small Business Loan Guarantee Program  
Public Infrastructure Advisory Commission

**BUSINESS, TRANSPORTATION AND HOUSING AGENCY**

November 15, 2012

The Honorable Mark DeSaulnier, Chair  
Senate Transportation and Housing Committee  
State Capitol, Room 2209  
Sacramento, CA 95814

The Honorable Bonnie Lowenthal, Chair  
Assembly Transportation Committee  
1020 N Street, Room 112  
Sacramento, CA 95814

The Honorable Mark Leno, Chair  
Senate Committee on Budget and Fiscal Review  
State Capitol, Room 5019  
Sacramento, CA 95814

The Honorable Bob Blumenfield, Chair  
Assembly Committee on the Budget  
State Capitol, Room 6026  
Sacramento, CA 95814

Dear Senator DeSaulnier, Assembly Member Lowenthal, Senator Leno, and  
Assembly Member Blumenfield:

This letter is to indicate that I have reviewed the California High-Speed Rail Authority's project update letter related to Provision 4 of Items 2665-104-6043, 2665-306-0890 and 2665-306-6043 of the Budget Act of 2012 (SB 1029, Chapter 152, Statutes of 2012). The budget language requires a Project Update Report each March 1 and November 15 once funds appropriated for the Bookends or the Initial Operating Section have been encumbered.

As of November 15, no funds from the abovementioned budget items have been encumbered for acquisition or construction, and no Project Update Report is required. However, to keep the Legislature informed on this important project, the following letter from the High-Speed Rail Authority provides a brief update within the framework of the Project Update Report.

Sincerely,

  
BRIAN P. KELLY  
Acting Secretary

cc list: See next page

cc: Honorable Ted Gaines, Vice Chair, Senate Transportation and Housing Committee  
Honorable Kevin Jeffries, Vice Chair, Assembly Transportation Committee  
Honorable Bill Emmerson, Vice Chair, Senate Committee on Budget and Fiscal Review  
Honorable Jim Nielsen, Vice Chair, Assembly Committee on the Budget  
Ms. Carrie Cornwell, Chief Consultant, Senate Transportation and Housing Committee  
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**Board Members:**

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Chief Executive Officer

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Dear Honorable Members of the California Legislature:

Under Provision 4 of Items 2665-104-6043, 2665-306-0890 and 2665-306-6043 of the Budget Act of 2012 (SB 1029, Chapter 152, Statutes of 2012), the California High-Speed Rail Authority (Authority) is required to provide a Project Update Report biannually on March 1 and November 15 once funds appropriated for the Bookends or the Initial Operating Section (IOS) have been encumbered. While at this time no funds have been encumbered, I want to report on significant progress on the high-speed rail project since the passage of SB 1029.

Since SB 1029 was approved by the Legislature and signed into law by Governor Brown in July 2012, the Authority has continued its work to plan, design, build, and operate the high-speed rail project as authorized by California voters in the Safe, Reliable, High-Speed Passenger Train Bond Act for the 21<sup>st</sup> Century (Proposition 1A). Initial work is scheduled to begin in the Central Valley in Summer 2013.

Several major project milestones have been reached since July. Specifically, on September 18, 2012, the Federal Railroad Administration (FRA) issued a Record of Decision (ROD) that approved the Environmental Impact Report/Environmental Impact Statement (EIR/EIS) for the alignment from Merced to Fresno. As part of his "We Can't Wait" initiative, President Obama announced on September 21, 2012 that the federal permitting and review processes for the Fresno-Bakersfield section would be streamlined in order to expedite delivery of the project.

Additionally, the public review period for the Fresno-Bakersfield section's Draft EIR/EIS concluded on October 19, after it was extended from 45 to 90 days, in direct response to stakeholder and public feedback that more time was needed due to the size and complexity of the document. The extended review period allowed greater public involvement in the project by providing ample time to respond. Authority staff is now in the process of reviewing those comments and developing detailed and direct responses to them. As with any effort of this magnitude, the Authority anticipates that its plans will be greatly improved by public input.

Finally, as part of the blended system envisioned in the Revised 2012 Business Plan (Business Plan), a portion of the connectivity funds appropriated in SB 1029 have already been allocated by the California Transportation Commission for work on several important

JERRY BROWN  
GOVERNOR



rail projects throughout California. These projects include Caltrain's advanced signaling system (Positive Train Control), San Francisco MUNI's Central Subway project, Metrolink's locomotive upgrade, Altamont Corridor Express' Stockton passenger track extension, and San Diego Trolley's Blue Line light rail improvements. As part of a statewide rail improvement program designed to supplement the high-speed rail system, these early investments will help modernize local and regional rail, vastly improve the state's mobility and economic competitiveness, and reduce greenhouse gas emissions.

As stated above, no funds from Items 2665-104-6043, 2665-306-0890 and 2665-306-6043 have been encumbered for acquisition or construction at this time. However, recognizing the need for public transparency and oversight, as well as the importance of working in close concert with elected representatives, the Authority would like to take this opportunity to inform the Legislature of the project's recent progress. The following serves as a brief update within the framework of the Project Update Report, as outlined in SB 1029. The first Project Update Report will be submitted to the Legislature in March 2013.

**(a) A summary describing the overall progress of the project.**

The project is progressing on all fronts and the Authority is working with stakeholders on planning activities, continuing to strengthen relationships with regional partners, completing important milestones in the environmental process and progressing with plans to begin construction in 2013. The Request for Proposal (RFP) for Right of Way Services (HSR 11-02) was released in September and the Request for Qualifications (RFQ) for Project and Construction Management Services for Construction Package 1 (HSR 11-20) was released in October.

In connection with the release of these solicitations, the Authority hosted pre-bid conferences, provided opportunities for small businesses to meet the shortlisted teams for the Design-Build contract, and adopted goals for the participation of Small Businesses and Disadvantaged Businesses in the project. These efforts have been well received and recognized as positive first steps toward ensuring that Small Businesses, inclusive of Disadvantaged Business Enterprises, Disabled Veteran Business Enterprises, and Micro-Businesses are afforded every opportunity to participate in the high-speed rail project.

The Authority has made significant progress towards filling its vacant positions, which has been of critical importance as recognized by the Legislature. The majority of the Authority's Executive Management Team has been filled, including the Chief Executive Officer, Chief Deputy Director, Chief Program Manager, Chief Counsel, Risk Manager, Chief Administrative Officer, and Chief of External Affairs. In addition, numerous support positions have been filled covering all aspects of the project. Pursuant to SB 1029, the Authority submitted its Staff Management Plan to the Legislature on October 1, 2012, which identifies the Authority's staffing needs moving forward.

The Authority Board's Finance and Audit Committee is carrying out its responsibility of addressing the findings of audits performed by the Bureau of State Audits and the federal General Accountability Office.

Finally, the Authority is currently involved in litigation on the project's environmental approval process. The Authority is working to resolve these lawsuits and the project remains on schedule.

**(b) The baseline budget for all project phase costs, by segment or contract, beginning with the California High-Speed Rail Program Revised 2012 Business Plan.**

The current anticipated budget for each phase of the project remains consistent with the Business Plan and each is noted below (all amounts are in year-of-expenditure dollars):

- Initial Operating Section-First Construction: \$6 billion.
- Initial Operating Section: \$25.3 billion.
- Bay to Basin: \$19.9 billion.
- Phase I Blended: \$17.1 billion.
- Total: \$68.4 billion.

**(c) The current and projected budget, by segment or contract, for all project phase costs.**

At this time, the current and projected budget for each phase remains the same as noted above.

**(d) Expenditures to date, by segment or contract, for all project phase costs.**

Currently, no funds have been expended for right-of-way or construction purposes pursuant to Budget Act Items 2665-104-6043, 2665-306-0890, or 2665-306-6043. However, the Authority has expended funds for environmental and design work on each segment. The following are expenditures by segment through the 2011-12 Fiscal Year:

- San Francisco-San Jose: \$32.7 million.
- San Jose-Merced: \$40.8 million.
- Merced-Fresno: \$40.8 million.
- Fresno-Bakersfield: \$60.8 million.
- Bakersfield-Palmdale: \$17.7 million.
- Palmdale-Los Angeles: \$35.7 million.
- Los Angeles-Anaheim: \$14.4 million.
- Los Angeles-San Diego: \$5.7 million
- Sacramento-Merced: \$4.4 million.
- Altamont Corridor: \$4 million.

Expenditures identified above were funded from a combination of federal and state funding sources with Proposition 1A bond funds totaling \$135.5 million and federal ARRA funds totaling \$121.3 million.

**(e) A comparison of the current and projected work schedule and the baseline schedule contained in the California High-Speed Rail Program Revised 2012 Business Plan.**

Changes in the Construction Schedule

With the release of Addendum 5 for Construction Package 1 on October 29, the current Notice to Proceed and start of work on the IOS is scheduled for Summer 2013. This is a change from early 2013 as stated in the Business Plan. This change was made to

accommodate requests from design-build teams bidding on the project more time to develop the proposals. Regardless, the Authority's goal remains to have environmental, design, and construction of the IOS first construction segment completed by 2018 as stated in the Business Plan.

#### Changes in the Environmental Schedule

The FRA's issuance of the ROD for the alignment from Merced-Fresno on September 18, 2012 is a change from the initial estimate of June 2012. The Fresno-Bakersfield section added new alternatives to be studied in response to stakeholders and extended the comment period on the Draft EIR/EIS. The comment period was extended to allow more time for public comment and stakeholder involvement in the environmental process. The public comment period for the Fresno-Bakersfield section concluded on October 19, which moved the anticipated date for the ROD to Summer 2013, instead of January 2013 as estimated in the Business Plan.

#### **(f) A summary of milestones achieved during the prior year and milestones expected to be reached in the coming year.**

##### Program Wide Activities

The Agricultural Working Group, an independent advisory group established in July 2011 to assist the Authority in addressing concerns raised by the agricultural community, released a series of white papers in September discussing impacts of the project on dairies, irrigation systems, pesticide use, agricultural equipment transport, and crop pollination.

##### Merced-Fresno

On May 3, the Authority Board adopted the Notice of Determination (NOD) for the alignment of the Merced-Fresno section. On September 18, the FRA issued a ROD doing the same. In addition to the NOD/ROD, an interagency agreement with Caltrans was approved by the Authority Board for the required work to realign State Highway Route 99 in the City of Fresno for a section approximately 2.5 miles long; an important step required for the work in the Central Valley.

The Merced-Fresno Section 106 Memorandum of Agreement was signed by the State Historic Preservation Office (SHPO) and the High-Speed Rail Authority on August 31. Signature of the document and acceptance of the Archaeological Treatment Plan and Built-Environment Treatment Plan by the SHPO concluded the Section 106 consultation process required for FRA's issuance of the ROD. Section 106 of the National Historic Preservation Act of 1966 requires agencies to take into account the effects of the project on historic properties, among other requirements.

##### Fresno-Bakersfield

The Draft EIR/EIS Public Review Period ended on October 19, 2012, which changed the schedule for the federal concurrence on the identification of the Preferred Alternative to early 2013. The environmental team is focused on the review and preparation of responses for the Draft EIR/EIS.

##### Bakersfield-Palmdale

The Purpose and Need Concurrence letters, which are required and state the federal government's agreement with the Authority's environmental process, were received

from the U.S. Environmental Protection Agency (USEPA) and the U.S. Army Corps of Engineers (USACE) in July 2012. Field visits were held to familiarize review agencies staff with updated alignments.

#### Palmdale-Los Angeles

The Purpose and Need Concurrence letters were received from the USEPA and USACE in August 2012. The Authority continues to work to identify the location of a maintenance facility at the route's terminus, with analysis of multiple site locations to be included in the Draft EIR/EIS. Coordination is ongoing between the Palmdale-Los Angeles and Los Angeles-Anaheim sections regarding issues associated with the alignment plans near Los Angeles' Union Station. The Authority also participated in meetings regarding the Master Plan for Union Station and reviewed the environmental footprint.

#### Los Angeles-Anaheim

The Purpose and Need Concurrence letters were received from USACE and USEPA in July 2012.

#### San Francisco-San Jose

The focus for the San Francisco-San Jose section continues to be obtaining concurrence with the Authority, FRA, and the Caltrain Joint Powers Authority on an approach to environmentally clear the corridor electrification project.

#### San Jose-Merced

The priority San Jose-Merced section objective is to establish an approach for environmental clearance of the "Wye", which are the alignment options proposed in Chowchilla for the connection between Merced and San Jose, and progress through the concurrence process for the Supplemental Alternatives Analysis to confirm which alternatives will be carried forward for evaluation in the Draft EIR/EIS.

### **(g) Any issues identified during the prior year and actions taken to address those issues.**

The Authority has addressed numerous project-related issues during the prior year. The issues discussed in detail below are those the Authority has identified as being of significant importance to the Legislature.

After the Governor signed SB 1029, concerns were raised over language in Provision 2 of Item 2665-104-6043 that enables the Authority to transfer funding appropriated for the Bookend sections to other budget act items, specifically Item 2665-306-6043, which contains the appropriations for construction in the Central Valley.

The Authority worked with the Department of Finance and members of the Legislature to clarify that the intent of this section is not to move funding designated for the Bookends to the construction project in the Central Valley. The language in the budget act item enables the transfer of funds based on the type of Bookend project undertaken (locally-sponsored or state-sponsored). Regardless of which budget act item the funds are transferred to, the appropriation must be expended in accordance with Provision 1 of Section 3, which states funds are for "early improvement projects in the Phase 1 blended system, consistent with the Metropolitan Transportation Commission Memorandum of Understanding, as approved by the High-Speed Rail Authority on April

12, 2012, in High-Speed Rail Authority Resolution 12-11 and the Southern California Memorandum of Understanding.”

Additionally, the Authority was asked to clarify its plans for the alignment on the San Francisco-San Jose section due to concern among some residents that the full build out of a four-track system would occur. In response, the Authority submitted a letter to the mayors of impacted cities along the San Francisco-San Jose section committing to the blended system as outlined in the Business Plan.

**(h) A thorough discussion of various risks to the project and steps taken to mitigate those risks.**

In preparation for the March 1, 2013 Project Update Report and the Risk Management Report, the Authority’s Risk Manager, in conjunction with the Project Management Team and the Project Management Oversight team, is continuing to assess and measure the following categories of identified risk:

- **Business Risk:** Variability in the Revenues (ridership and revenues) and Variability in Costs (operations and maintenance).
- **Investment Risk:** Change or variation in factors affecting the initial capital expenditure to deliver the project including staffing and organizational structure, environmental approvals, stakeholder support, right-of-way, and third-party agreements.
- **Financing and Funding Risk:** Variation in factors that affect the financing of the project and, in this case, funding (e.g. changes in interest rates, withdrawal, or failure to secure necessary funding at the requisite time).

Additionally, the Authority continues to work on updating the Risk Management Plan to fully comply with SB 1029 requirements; expand the use of quantitative risk management analyses and integrate risk-based estimating practices; expand the use schedule risk analyses; provide forecasting, budget, and contingency risk analyses; roll out risk management information system; move towards enterprise risk management, integrating operational, hazard, strategic, and financial risk management and facilitate risk-driven decision making.

The Authority is committed to working closely with our state, local, and federal partners to ensure the success of California’s high-speed rail project. As the project continues to advance, we look forward to an open and frequent dialogue with the Legislature and the public. In doing so, we hope to construct a high-speed rail system that benefits all Californians. If you have any questions or concerns, please contact me or Matt Robinson, Deputy Director of Legislation, at (916) 324-1541.

Sincerely,



Jeff Morales  
Chief Executive Officer

cc: Honorable Ted Gaines, Vice Chair, Senate Transportation and Housing Committee  
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