



DRAFT

FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES

March 8, 2016

**Department of Health Care Services
1500 Capitol Avenue
Conference Room 72.165
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on March 8, 2016 at 8:30am.

Committee Board Members Present:

Mr. Michael Rossi, Chair lead
Mr. Tom Richards

Board Members Present:

Ms. Lynn Schenk
Ms. Bonnie Lowenthal

Authority Staff Present:

Mr. Jeff Morales, CEO
Mr. Dennis Trujillo, Chief Deputy
Mr. Tom Fellenz, Chief Counsel
Mr. Russell Fong, CFO
Mr. Jon Tapping, Director of Risk Management and Project Controls
Mr. Scott Jarvis, Chief Engineer
Ms. Paula Rivera, Chief Auditor
Mr. Alan Glen, Director of Real Property
Mr. Mark McLoughlin, Director of Environmental Services
Mr. Paul Engstrom, Third Party Manager

Rail Delivery Partner Staff Present:

Mr. Gary Griggs, Program Director

Minutes prepared in the order items were presented during the meeting

Agenda Item – February 2016 Meeting Minutes

- No comments.

Agenda Item – Action Items from Previous Finance and Audit Committee Meeting

- None.

Agenda Item - Financial Reports –

Questions asked and answered. Issues discussed included:

- **Executive Summary Report** – Mr. Rossi asked on page 3 issue number 2 if the CEO has the authority to approve being over budget. Mr. Fong replied yes. Mr. Rossi asked for an explanation of Personal Services. Mr. Fong replied that Personal Services is salary, wages, and benefits. Mr. Rossi asked on page 4 if the FRA is okay with the executed contract on the radio spectrum rights. Mr. Morales replied that we have discussed with FRA. Mr. Rossi asked on the submissions to FRA if we are showing we can meet the spend period of the ARRA Grant agreement. Mr. Fong responded yes. Mr. Morales added that in terms of meeting it we are backing up from the September 30th date several months in order to process the invoice.
- **Cash Management Report** – Mr. Rossi asked where is the GHGRF cash balance. Mr. Fong replied that it is with the Treasurer's Office.
- **Summary of YTD Budget & Expenditures** - Mr. Rossi asked about travel for the rest of the year. Mr. Fong responded that we are going to have to look at travel and that it is higher than it has been historically. Overall we are under budget and do not anticipate any issues. Mr. Richards commented that we are normally under budget and asked historically if we catch up during the fourth quarter. Mr. Fong replied that the fourth quarter is historically when we get the most invoices.
- **Budget and Expenditures Report** – Mr. Rossi asked on page 1 why External Affairs is at 66.8% YTD of Budgeted Expenditures. Mr. Fong responded that External Affairs has 2 blanket positions that we are going to fill with current vacant positions. These two blanket positions are established without established positions and that is why they are over budget. We will fix that by the end of the year. Mr. Richards asked if the major issue with Finance is the external contracts. Mr. Fong replied correct. Mr. Rossi asked about page 10 line item 382 Interdepartmental Contracts. Mr. Fong replied that there are invoices that we have not received from other state agencies. Mr. Rossi asked on page 19 about Program Management Office's vacancy rate of 23%. Mr. Jarvis replied that we have vacant positions that are primarily in Planning, Environmental and ROW. We are close to hiring for some of those positions and that percentage will be going down. Mr. Glen added that ROW currently has 6 vacancies with 4 job offers out for those vacancies. Mr. McLoughlin added that Environmental Services recently filled 2 positions and has 2 remaining vacant positions. Mr. Fong commented that the report shows 37.5 total vacant positions but as of yesterday we have 33 vacant positions, 9 of which are newly established positions.
- **Projects & Initiatives Report** – Mr. Rossi asked about the hiring and staffing timeline trend going down. Mr. Fong replied that it is trending down due to our lower vacancy rate.
- **Operations Report** – Mr. Rossi asked for a copy of the analysis performed that verifies ARRA Federal Funds will not be at risk from page 6. Mr. Morales identified that it is done and has been sent to FRA. Mr. Rossi asked on page 9 about the 428 cumulative parcels trending toward the alternative forecast and what is the solution. Mr. Glen replied that during the month of January we did fall about 10 parcels below the forecast line. We are working to get back on track. We are continually breaking down the process flowchart looking for any bottlenecks. The last couple of months some of the key bottlenecks have been approximately 45 appraisals that were at DGS in terms of getting approval. We met with them and they indicated that it would be a 2 week turnaround that has taken longer. There was a similar bottleneck at DGS where they approve the contracts (AQC process) where we are getting to see some relief. Overall the latter half of 2015 if you remove the public parcels, we averaged about 40 private parcels per month. We have continued that over the last 3 months with 50 in December, 30 in January and 40 in February. The goal is to get to 50 per month. We are doing process checks throughout the organization. We have had some vacancies that have created a little bit of an issue, but that's not the only issue. We look at trend analysis on various elements of the pipeline and try to attack them to get things turned around. Mr. Morales added that geographically we are getting into tougher

territory. Mr. Rossi asked on CP1 and CP2-3 if we have any problems from the point of view of the critical mass parcels aggregated to continue construction in a manner that is representative to meeting the requirements of time and budget for meeting the ARRA spend. Mr. Glen responded for overall delivery we've made a concerted effort to focus on critical parcel deployment. On CP1 by the end of this month we will have 7 locations under construction. Mr. Rossi asked if these are the 7 we have been talking about. Mr. Glen replied that 1 of the 7 is still lagging. Avenue 12 we are hoping to have later this month. We will have an extra to make up for Avenue 12. We are going to continue to partner on all 3 construction projects. We had discussions with the CP2-3 design-builder at a partnering session recently. We have most of the parcels needed for the northern 10 miles of CP2-3. We expect to get 8 bridges under construction in that segment this year. We are going to continue to mass critical sections of parcels together in order to get to construction as early as we can. Mr. Morales added that we are replicating the process we used in CP1 on CP2-3 and we will do the same in CP4. One of the issues we have with CP2-3 is as we move further south in the Valley we get into Kings County where we are facing a higher number of eminent domain cases. Each of the presiding judges recused themselves from hearing those cases. We have arranged through the state judicial council for there to be a visiting judge that comes in to handle those case loads. We are now looking at whether we need to ramp that up so we don't have delays in the process. We are working on this at all levels. Mr. Richards asked who determines what potential delays are and how does that impact the alternative forecast. Mr. Glen replied that we went through an analysis in September 2015 where we established the alternative curve. It was based on the areas within the pipeline that we have seen historic delays over what would otherwise be forecasted. We set that one time with that analysis and that line has not moved, as opposed to the early forecast cumulative that gets updated every week by our consultants as the process ebbs and flows. We expect that line might sink a little bit towards the alternative forecast but my goal is to never reach that alternative forecast. Mr. Rossi commented on page 16 that everyone knew the December forecast was not going to happen. Mr. Rossi asked what is going to be done to catch up. Mr. Glen replied that we would like to stay on the forecast. Eventually once we continue the partnering process with CP2-3 we would have a re-baselining to smooth out the original planned curve. It was built on an acquisition plan that was part of the contract moving from north to south. In CP2-3 the north is looking good. We are then going to have the contractor move to the south end of the job where we have a critical mass of parcels and that will buy us time to deliver the parcels that are needed in the middle where some of the larger ABCs reside.

Mr. Rossi asked on page 22 what the planned costs remaining locked means. Mr. McLoughlin responded that they are currently locked and they will currently remain where they are. One thing we have done in the last month is we had section meetings for each project section. We had engineers at the table, with planning and environmental. Mr. Morales added that we are now evaluating whether we need to revise the budgets to reflect the updates. Mr. Rossi asked if we would revise them up or down. Mr. McLoughlin replied that they will go up based upon the schedule meetings that we have had. Each section is very interesting in that when you put all of the disciplines together it's very clear to understand that integration of project definition by the engineering team to the regional consultant. When we have taken some time to do that, to invest in that, then we can move forward at a more expedient rate quality wise instead of starting and stopping. Which is traditionally what we have done because of time. Time is very important but at the same time if we invest up front to understand the definition of each project section and understand the relationship of the stakeholders then move into our analysis which allows us to manage into that schedule and to that contract. What we are finding is that there are gaps in each of the sections to enable to get into construction. Each one is very different. The goal is with the theme of getting to construction as it relates to permitting, mitigation and other things that may have been solely focused on the ROD. The permitting piece is paramount with the ROD to enable construction. We want to make sure if a parcel is available that it should be cleared and available for construction so it won't impact preliminary work. When we are looking at that it may be

time to re-baseline each schedule and budget. Mr. Morales added that one of the things we are looking at in this process is whether additional upfront work can accelerate the program and potentially save cost on the construction side. If we can identify a greater level of detail in the geotechnical it helps the bidding process. We may increase the budget to focus and deliver some of that but that will be offset afterwards. Mr. Rossi asked on page 22 “the Environmental information in this Operation Report differs from the Funding Contribution Plan (FCP) since the FCP is limited to the scope of the ARRA grant and state match plan”, if we are changing the data. Mr. McLoughlin responded no. Mr. Rossi asked on page 27 for the Central Valley Wye (M-F) about the planned and forecasted dates. Mr. McLoughlin responded right now based upon the current stakeholders and based upon the preferred alternative we are looking at different ways based upon the current business plan. We are looking at making ways to make decisions on the Central Valley Wye in a different way. Normally we have also tried to have a preferred alternative in the draft. It is clear that this one has a problematic stakeholder issue so we are moving forward with the current 3 alternatives in the draft in a traditional sense. The preferred alternative can come after that draft or be part of the final. We are going to provide some alternatives of looking at the wye or some different ways of looking at the wye to get through it to get to the ROD. This is a very sensitive stakeholder place and the stakeholders have changed. Mr. Rossi asked about the Bakersfield to Palmdale segment. Mr. McLoughlin responded that the complete alternatives analysis has been moved forward to March technically being done now and the plan is to take it to the Board in April on the SAAs. All are planned to go to the Board. Mr. Rossi asked about the Palmdale to Burbank section dates if the Board selection of preferred alternative is going to happen. Mr. McLoughlin replied that it is on target. Mr. Rossi asked on page 28 number 3, 6, 7 and 8 about the way we are going to meet the plan is to compress activities. Mr. McLoughlin replied that the process is the process. Where we get hung up is in the review times. Whether it is internal with our people or the external agency review is roughly half the time. We are trying to control and manage our internal time frames as they relate to environmental and engineering consultants. The quality of the documents are very important. We had a quality meeting with the wye team. We are going to do that with every section right now. To cut down on that agency’s review time, since we’re funding those agency groups, the expectation is that we have travel budgets for them they will travel and do whatever is required at the team meeting verses handing things over the fence to them. With the result that they will be integrated with us, to review project sections, what they’ll see in the documents to set up other permit divisions. That is going to happen very quickly. That is the intent since October to set that infrastructure up. Mr. Morales added that in no case are we talking about compressing public outreach and public commentary. It’s all about internal processes. Mr. McLoughlin added that we have a fairly uniform approach on how we are achieving the RODs and permits understanding the scope and size and landscape of each section.

Mr. Richards asked for an overview of third party agreements. He also requested a validation of the railroad numbers to be brought to the Committee in May. Mr. Engstrom replied that page 41 shows new data showing the projections of agreements we anticipate for the non-CP Central Valley, North and South segments. This shows what is coming at us soon on the agreement execution side. Page 44 shows where we are at for the estimates we have completed. CP1 has 3 items: PG&E, AT&T and the City of Fresno. AT&T and PG&E have a significant increase in cost. Those are a result of getting to a point where we see the contractor’s utility matrix that have been identified and subsurface investigations that we did not have before. We looked at that and estimated the cost. The City of Fresno is essentially a contribution for the construction of Veterans Blvd. and there is no increase in cost or contingency that we expect for that. The PG&E estimate in the provisional sum for CP2-3 we are currently vetting the utility matrix with the contractor. The estimate that we have is based upon the initial estimate that went into the project. We anticipate having more information on that soon. CP4 is a reiteration of what we voted on last month. Mr. Rossi asked on page 58 how we catch up? Mr. Jarvis replied that the majority of the money is spent on construction. For CP 1, the key is the 7 locations

where we have started work. We need to continue work and maximize construction. On CP 2-3 we are going through similar exercises with 8 structure locations where there is quite a bit of money involved. The plan is to start construction at several of those locations by September and to have completed a substantial amount of construction by June, 2016, prior to the ARRA spend deadline. We have involved our engineering team both with the RDP and with the Authority to accelerate bridge construction. The northern extension change order is significant on CP1 with 3 large overcrossing structures that will help advance the program and advance the spending of the ARRA funds. Every 2 weeks there is an ARRA spend meeting with the management group to discuss options that Mr. McLoughlin and Mr. Glen attend. It is a comprehensive team that looks into maximizing construction. Mr. Rossi asked at the next meeting to have a full presentation.

Agenda Item – Audits –

- **Design-Build Stipend and Alternative Technical Concepts** - Mr. Rossi asked to have completion dates on the auditee response.

Agenda Item – CP 1 & 2-3 and SR-99 Project Update

- **CP1 Performance Metrics** - Mr. Rossi suggested on page 5 to show that the issues are in line and they look large due to the value of construction. Mr. Morales explained that we look specifically at each of the values of the NCRs, looking at whether there is a trend there that we need be concerned with. What we have seen of the 22 is nothing that is significant. What we are proposing is to add a second metric to show the resolution. The metric as it stands presents a skewed picture. We want to show how this is being resolved by the contractor, which is the proposed metric. Mr. Tapping added that NCRs are not necessarily a bad thing. It shows that the design-builder has a process and is identifying issues for improvement. The new chart is a better metric that shows that the issues are being resolved. Mr. Morales added that the existence of NCRs is a good thing because it shows mistakes are being caught. If it showed big systemic mistakes that would be a different issue. Minors issues being caught is something we want to see because it shows the process is working. We all agree that the second metric is a better representation on what is going on. Mr. Rossi and Mr. Richards agreed that the performance metric can be replaced and noting the total number of NCRs resolved.

Current Issues

- No current issues.

Meeting adjourned at 9:25 am.