



DRAFT

FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES

May 20, 2016

Sacramento County Board of Supervisors

700 H Street

Hearing Room 2

Sacramento, CA 95814

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on May 20, 2016 at 10:10 am.

Committee Board Members Present:

Mr. Michael Rossi, Chair lead

Mr. Tom Richards

Authority Staff Present:

Mr. Dennis Trujillo, Chief Deputy

Mr. James Andrew, Assistant 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. Mark McLoughlin, Director of Environmental Services

Mr. Paul Engstrom, Third Party Manager

Ms. Deborah Harper, Chief Administrative Officer

Rail Delivery Partner Staff Present:

Mr. Gary Griggs, Program Director

Mr. Jeff Matthews, Deputy Director Right of Way

Minutes prepared in the order items were presented during the meeting

Agenda Item – March 2016 Meeting Minutes

- Mr. Rossi requested that the California High-Speed Rail Maximizing Construction Report be reconstructed so it is an operating report. The report needs to show how the numbers all come together. This needs to be a business report without the photos. Mr. Richards added that the report should be started with the quantification then have the narrative written. Mr. Griggs requested to have the report due at the July Finance and Audit Committee Meeting. Mr. Rossi approved the request and added the report will be presented at that time. Mr. Richards added that this will be a living document that will be

about the things that keeps everyone on track. Mr. Rossi added that the old Operations Report has a slide that compares actual versus budget and it is wrong. It was not the original budget. It was a series of recasting of the budget predicated on not meeting performance. Mr. Griggs responded that we have corrected that and issued a revision of the Operations Report. Mr. Richards asked if that misunderstanding is caused because of the continual reforecasting or rebase lining. We don't want to lose track of the original budget. How we measure our success is by providing a budget where we do not see a lot of change. Mr. Griggs added that on the Operations Report we have shown actuals that start in December and go forward. We are in the process of going back and coming up with the original plan numbers that will be added to the next Operations Report. Mr. Rossi asked to have a presentation that addresses ROW solutions. Mr. Griggs responded that we intended to address that in the Maximizing Construction Report. Mr. Rossi asked to back up the plan with numbers that explain how we plan on becoming more efficient.

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 how the budget changed from April to May. Mr. Fong responded that the budget did change. A past example of a budget change would be the RDP work plan. The board approved the overall RDP budget. Once the RDP annual work plan is approved the fiscal year budget will change accordingly, by the amount of the approved annual work plan. Mr. Rossi asked who approves that. Mr. Fong replied executive staff, as long as it's within our overall Board approved RDP budget. Mr. Fong added that the \$10M budget increase in the May report is due to the Madera extension that was approved by the Board. Mr. Richards asked about the timeframe for implementation of the financial system noted on page 5. Mr. Fong replied we are trying to wrap up Fi\$cal with the goal to go live late summer. We have a good understanding of what Fi\$cal can and cannot do from our gap analysis. We have been working with the RDP and our financial adviser to figure out what are the next steps and what the solution looks like. This is marked yellow or caution because Fi\$cal put us behind schedule. Mr. Richards asked on page 3 what is the Team Insights Online Portal software subscription. Ms. Harper responded that it is a subscription that was purchased at the end of last year to help with integration. Now that we have an overall organizational structure in place, it is part of our overall plan to create a highly functioning team. Mr. Rossi asked what it does. Ms. Harper replied that it is proprietary software that helps with the decision process of the executive team. Mr. Richards asked if other state agencies are using this. Ms. Harper responded that CalPERS used it with their new PSR system and had massive success.
- **Summary of YTD Budget & Expenditures** - Mr. Rossi asked about the difference in where we are at in the year compared to how much we spent. Mr. Fong replied that we are at 58.5% of the budget expended with 75% of the year completed. Our low expenditure rate is primarily due to late interagency invoices that we have not received. Mr. Richards asked if at the end of the year we will be close to our budget. Mr. Fong replied that we will be under our budget. Mr. Fong added that our current vacancy rate is 13% with the state average being 13.6%. That will get us much closer to our budget. Mr. Fong also pointed out that due to the new organization we went from 6 divisions to 12. The May reports reflect our new organization with the integration of the RDP.
- **Budget and Expenditures Report** – Mr. Rossi asked about the new added projects on the report. Mr. Fong responded that we are still in the process of deciding what should go on the report, a refresh. We are currently defining the individual projects. Mr. Rossi asked if there are other projects that are being worked on that don't have timelines. Mr. Griggs responded that from a project delivery standpoint every project has a scope, schedule and budget. Mr. Rossi commented that he expects this to be a very long report and would like it completed for the next presentation. Mr. Richards asked how we are

tracking our progress. Mr. Fong replied that the report relies on each project manager to give a monthly update on the status of their project. This is a high level report and if there are questions we can give more details. Mr. Rossi stated that there are many more projects than these that are more important and those need to be on this report. This is a tracking document that is used for a specific reason. It makes it easier to know where the problems are.

- **Operations Report** – Mr. Richards asked about the probabilistic analysis on page 1. Mr. Tapping replied that we are continually updating the probabilistic analysis on CP1 and CP2-3. On CP4 we just completed setting the contingencies. Mr. Rossi asked if there are any issues. Mr. Tapping replied no. Mr. Richards asked about the projected finish of the ARRA budget. Mr. Griggs replied that we have a month by month forecast through June 2017. Every quarter we re-evaluate that as part of our submission to FRA for our funding contribution plan. Mr. Rossi commented on page 9 that performance is better. Mr. Rossi asked if we are going to catch up with the issues we presently have. Part of that is when we did the plan, we didn't do anything that reflected critical mass acquisitions. We can still not totally catchup and not damage the delivery depending on the critical mass acquisitions. Mr. Rossi asked for something presented on the plan at Finance and Audit Committee meeting in July as well as a backup plan. Mr. Richards added that it should be presented in a way that it is collaborated with the design-builders because it has to address how they are sequencing the project to ensure the spend will meet the requirements of the ARRA deadline. It's not just the number of parcels, it's the location of those parcels meeting those requirements. Mr. Griggs added that we have identified for the three construction packages critical construction areas and we are lining up ROW acquisition activity with that. In CP1, as to be expected, we are starting to get the really tough acquisition parcels that we continue to work and find ways to break through. The other contracts are going smoother because we are still early in the process. We will come forward with specific action plans A and B. Mr. Rossi asked on page 32 if there was an original target date for items 1 and 2. Mr. McLoughlin replied that he does not recall the original dates. Mr. Rossi asked if we will have some slippage with the schedule. Mr. Griggs replied that we have a lot pressure on these schedules and we have things changing. Mr. McLoughlin added that one of the main focuses we are trying to get to is project definition. We really have to focus on what we want to build and what we want to operate. We know changes will happen with engineering and stakeholder issues and we are trying to balance those as we move forward. Mr. Rossi asked about the process that is being put into place. Mr. Griggs replied that there is a weekly meeting with the goal to achieve the ROD dates with the 2107 ROD dates being the most critical. If there may be an impact on one of the ROD dates, we review what is causing the impact and make sure that all mitigation measures are taken that will avoid having to delay the date. Mr. Rossi asked why the chart on page 32 is not prioritized. Mr. Richards asked on page 38 about the initial preferred alternative of the heavy maintenance facility. Mr. McLoughlin replied that right now we are looking at different options for the heavy maintenance facility with two to three alternatives. We have criteria with a definition of what we want it to be.
- **Third Party Agreements Financial Report** – Mr. Richards asked for an overview of the report. Mr. Engstrom responded that our mission was to get clarity on how to proceed with third party agreements as well as the utility issues that are considered a significant risk to the program. The team reviewed the past estimates, validated or adjusted all estimates, reviewed existing processes and activities, and worked closely with risk management making sure the current issues of concern are quantified for the risk overlays. Additionally, guidance has been developed and continues to be developed for implementation of best practices. Lastly, the current estimates were assessed relative to the budget. Mr. Rossi asked on page 5 if it is reflective of the changes of the business plan. Mr. Engstrom replied yes. Mr. Rossi asked on page 6 to have risk overlay be shown be labeled as part as the contingency needed. Mr. Rossi asked if Mr. Engstrom is comfortable we will achieve these numbers. Mr. Engstrom replied yes. Mr. Richards asked if the confidence level for the risk overlay is 90%. Mr. Tapping replied yes.

Agenda Item – Audits –

- **Contract Management Follow Up** - Mr. Richards asked about the Contract Management Services Unit (CMSU). Mr. Fong responded that it is the Contract Management Office that falls under the Financial Office. There are two parts the CMSU is going to address with one being the RDP contract manager. The other role is to create clear expectations of the contract managers and what program areas are responsible for. This will include compliance, risk and training.

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

- No discussion

Current Issues

- Mr. Griggs reported that Amendment 6 to the FRA Grant Agreement had been executed. Mr. Rossi asked if it involved an extension of the time the ARRA funds could be expended. Mr. Griggs responded that it did not extend that time which remains as September 2017. Mr. Richards stated that the amendment was good news and helped align the Agreement with the 2016 Business Plan..

Meeting adjourned at 11:15 am.