



BRIEFING: JUNE 14, 2016, BOARD MEETING AGENDA ITEM #6

TO: Chairman Richard and Board Members

FROM: Russell Fong, Chief Financial Officer

DATE: June 14, 2016

RE: Consider Awarding the Contracts for Financial Advisory Services

Background

At the January 12, 2016 Board Meeting, the California High-Speed Rail Authority (Authority) staff, in adherence with the policies of the Board, asked for the Board's approval to procure the services of a Financial Advisor through a Request for Proposals (RFP). The RFP was for a proposed four year contract not to exceed \$40 million (\$40,000,000).

In Fiscal Year 2013-2014, the Authority had more than \$6.5 billion in appropriations between Proposition 1A and federal funds. However, the Financial Office had less than 20 staff total among Budgets, Accounting, Grants and Contracts units. The Authority was relying on resources from the Program Management Team contract to assist with tracking expenditures, monitoring funds, and requesting payment/reimbursement from the Federal Railroad Administration (FRA). There were limited reports available that illustrated the day-to-day financials of the Authority, which were manually generated with Excel. Processing payments proved difficult due to the structure of the budget and limited availability of state resources. Presenting financial information to stakeholders under these conditions in usable formats with accurate information was also very challenging.

The Board directed the Financial Office to produce higher quality financial reports and enhance accountability. The Financial Office's primary goals were to build a solid financial foundation for the Authority, and ensure financial transparency and ease of use of financial data by the Authority and external parties. With the assistance of the existing Financial Advisor, the Financial Office created stability and credibility for the Authority's financial data. Since then, the Authority has secured a major capital funding stream – Cap and Trade – and has transitioned from a planning focused organization to an implementation organization. Going forward, significant amounts of funds will flow through the Financial Office. The existing Financial Advisor contract has been essential to the Authority and the next phase of the Authority requires the continuation of the Financial Advisor services.

Existing Financial Advisor and the Need to Continue Financial Advisor Services

In August 2014, the Board approved the award of contract HSR 14-01 to the current Financial Advisor which was the result of competitive bid, RFP HSR-1401. The responsibility and activities of the Financial Advisor were for specialized technical support to the Authority for:

- Back Office Operations which includes enhancing internal controls, validating and maintaining the integrity of financial data. Developing the Financial Office with the appropriate oversight which includes policy and procedures that will insure the financial integrity of a mega infrastructure project.
- Financial and Performance Reporting to allow the Board, Stakeholders and Management to make strategic decisions based on quality financial data and actively manage operational performance using timely and accurate information
- Development of a Financial System that will meet the needs of the Authority.
- Developing Funding Plans, Procurement Strategies and a Commercial Framework that will continue to move the Authority forward in an efficient and cost effective manner.

All of these services strengthen and support financial systems and processes for the overall Business Plan funding strategy under Prop 1A, Cap and Trade, and Federal funding grants. These services will enable the Authority to carry out its work of planning, building, and operating a high-speed rail system as outlined in the 2016 Business Plan. The skills necessary to meet this require highly technical resources are not typically available in state agencies. Moreover, as the program evolves and moves through the many phases of development, the Authority will require the flexibility and adaptability of the private sector to adequately address its financial needs.

The Financial Advisor has been integral to the transition from the state legacy CALSTARS accounting system to the new statewide mandated FI\$Cal System. The Authority is part of Wave 2 of FI\$Cal which went live in August of 2015. As with any large scale system migration, there is a significant amount of preparation and integration work involved. For the Authority, the workload to transition to FI\$Cal has been exhaustive and labor intensive. The Financial Advisor has been the hub of project management for the Authority's FI\$Cal migration and has helped coordinate, implement, reconcile and complete tasks for the project. The Authority currently must continue to utilize the legacy accounting system, CALSTARS, to process payments, closeout months, and reconcile accounting reports as well as maintain the Board Reports. The need to maintain dual systems, CALSTARS and FI\$Cal, for accounting and payment purposes, but reconciling the two has been a challenge mitigated by the Financial Advisor's assistance. Without the extensive use of the Financial Advisor for FI\$Cal migration, the Authority would not have the significant progress it has made to date.

In the FY 2014/15 Budget, the Legislature appropriated funds from the Cap and Trade program for the Authority. With this new continuous funding stream, the Authority had been presented with the opportunity to develop a strategy to accelerate the delivery of the project, which could potentially save the State billions of dollars over the life of the project. The impact of Cap and Trade funding was not fully understood at the time of the current Financial Advisor contract award and necessitated the need for more in-depth financial analysis. Subsequently, the hours expended by the Financial Advisor to cover the impact of Cap and Trade, in conjunction with the

augmentation of state staff, has been extensive.

The budgeting, planning and reporting requirements for the Authority increased in volume and complexity as the Authority started construction, new funding sources arose, and technical projects (namely FI\$Cal) that provided additional challenges. The Financial Advisor has been integral in timely, accurate, and relevant reporting to the Board and other stakeholders. Going forward, the Financial Advisor will assist the Financial Office in automating its financial and performance reporting processes enabling the Authority to accurately report data in an efficient and effective manner.

In addition to working with new technical systems, the Financial Advisor must also work closely with the Authority's partners, including the Rail Delivery Partner (RDP). The Authority awarded the RDP contract on July 1, 2015 to assist moving the high-speed rail planning efforts into delivery of the system. The services provided under the new Financial Advisor contract are critical to assisting the Authority with working closely with the RDP to carry out the delivery strategy outlined in the Authority's 2016 Business Plan and to perform the critical financial analysis for the Authority based on the construction, operating and maintenance cost estimates, as well as revenue and ridership projections.

The scale of the high-speed rail program requires public funding, both State and Federal, but it is also the objective of the Authority to use private sector approaches and delivery efficiencies wherever possible to reduce costs and risks to the Authority. This includes leveraging private financing and investment, where appropriate. The new Financial Advisor contract will include tasks related to performing additional in-depth analysis required to implement a delivery, funding and financing plan to support the first operational segment of the system (Valley to Valley segment). The new Financial Advisor will provide support in the evaluation of proposals for design-build construction contracts by providing financial capacity analysis to determine if each bidding team has the financial capacity to deliver the project. Additionally, the new contractor will provide analysis for ancillary revenue opportunities and develop approaches for planning and construction to contribute to capital funding needs. The new Financial Advisor contract will include tasks related to providing support to the Authority's staff in working with the Department of Finance in the deeper assessment of funding options and budget impacts of alternative courses of action as a result of additional funding sources and financing opportunities. The combination of these factors has significantly accelerated the use of the Financial Advisor staff and contract hours during FY 2014/15 and FY 2015/16. These tasks and functions are beyond those typically found in state agencies.

Part of the Chief Financial Officer's (CFO) role is to enhance the internal controls and business processes of the Financial Office and to ensure the financial integrity of the Authority. With the expectation of securing private sector financing and investment in the future, financial integrity is critical to attracting the best developers and investors. This, in turn, will increase competition and the likelihood of obtaining the most favorable commercial and financial terms for the Authority – resulting in reduced all-in costs for the taxpayers of California. Procuring a world-class Financial Advisor on board for the next four years will assist the CFO and the Authority with significantly enhancing internal controls and maintaining financial integrity.

Prior Board Action

Pursuant to Board Resolution #HSRA 16-02, approved on January 12, 2016, staff issued a Request for Proposals (RFP) to procure Financial Advisor services to be awarded to Primary and Secondary contractors. The estimated dollar value included in the RFP was \$40 million (\$40,000,000) for a not-to-exceed budget and included a term of four years.

Discussion

The responsibility and activities of the Financial Advisor will be to assist the Authority in carrying out its work of planning, building, and operating a high-speed rail network as outlined in the 2016 Business Plan. Among the key responsibilities of the Financial Advisor in the coming years will be the identification of innovative financing opportunities, assistance in the structuring of concession and other contracts, assisting the Authority in advancing the outreach to and interaction with private sector investors, and assisting the Authority in further strengthening financial systems and processes.

The RFP requirement is for an hourly rate plus cost reimbursement contract with a ceiling on the total contract amount. The resulting contract awards were to be made to the two highest scoring Proposers with the highest combined weighted technical, cost, and interview scores among qualifying proposals as Primary and Secondary contractors. The contracts will have the condition that the highest scored contractor (Primary Contractor) will receive all Work Authorizations. If the Primary contractor does not accept the Work Authorization and/or cannot complete the work described in the Work Authorization, the Authority may elect to send the Work Authorization to the next highest scored contractor (Secondary Contractor). The RFP and resulting contracts contain a 30-day termination clause and require compliance with the Authority's Small and Disadvantaged Business Enterprise Program and the applicable 30 percent participation goal for Small Businesses.

The key dates of the RFP were:

- RFP Release/Advertise Solicitation on eProcure/Authority's website – April 22, 2016
- Deadline for Written Questions – April 27, 2016
- Deadline to Submit Proposals by 12:00 p.m. – May 6, 2016
- Mandatory Consultant Interviews – May 16, 2016
- Notice of Proposed Award – May 17, 2016
- Contract Start Date – June 14, 2016

RFP Process

The procurement process for the Financial Advisor Services contract was managed directly by Authority staff consistent with the State's competitive procurement process as defined by Public Contract Code section 10344 et seq. and the Board's policies for RFPs. The Authority received two proposals by the RFP deadline of May 6, 2016: (1) KPMG LLP, (2) Ernst & Young Infrastructure Advisors LLC (EYIA LLC). In the first stage, the Office of Procurement and Contracts (OPAC) staff reviewed the proposals for compliance with the RFP's mandatory format and minimum requirements. Per the RFP requirements, both proposals were compliant. In the second stage, the Evaluation Committee met, evaluated, and scored the eligible proposals based

on the criteria of the RFP in Attachments A and B, as listed below.

ATTACHMENT A: CRITERIA FOR AWARDING POINTS TO THE TECHNICAL PROPOSAL

TECHNICAL PROPOSAL CRITERIA		Maximum Score
1.	<p>Approach and Methodology (5.3.2 B)</p> <ul style="list-style-type: none"> • Proposal demonstrates an overall approach from the Scope of Work (Attachment H) and the four (4) major areas • Proposal demonstrates the specific methodologies, processes, structures, or technology to support the overall approach in delivering the Scope of work (Attachment H) and the four (4) major areas • Proposal demonstrates specific administrative, operational and management expertise that will be employed 	100
2.	<p>Team Organizational Structure (5.3.2 C)</p> <ul style="list-style-type: none"> • Proposal describes the organizational structure of the Proposer, including an organizational chart of the entire contract team • Proposal demonstrates how the Proposer will fulfill the requirement to maintain staff in Sacramento, CA • Proposal contains a short description of each firm and key members of the team, indicating any history of a working relationship between the team members, and noting any significant success stories • Proposal describes the functions to be performed by staff members of the Proposer and any Subcontractors • Proposal describes and summarizes the Proposer's Small Business Performance Plan 	100
3.	<p>Proposal Team Experience and Qualifications (5.3.2 D)</p> <ul style="list-style-type: none"> • Proposal presents qualified personnel appropriate for the Project and Scope of Work proposed • Proposal includes an estimate of allocation of each professional to the tasks assigned to the Agreement as a percentage of the total budget, and what tasks each professional will perform including Subcontractor hours • Proposal describes the overall experience and capacity of the proposed team 	100
4.	<p>Past Performance and Experience/Client References (5.3.2 E)</p> <ul style="list-style-type: none"> • Comparative size and quality of prior projects related to high-speed rail, infrastructure and P3 • Comparative experience on financial analysis plan • Comparative experience on financial operations, procurement support, develop administration and support processes, and use of technology in financial operations and reporting 	100
5.	<p>Task Order (Technical) (5.3.2 G)</p> <ul style="list-style-type: none"> • Proposer demonstrates its competence of Work outlined in Attachment E, Task Order (Technical) • Proposed hours and classifications are appropriate for the Work outlined in Attachment E, Task Order (Technical) 	100
Total Technical Proposal Score		500

ATTACHMENT B: CRITERIA FOR AWARDING POINTS FOR THE COST PROPOSAL

COST PROPOSAL CRITERIA	Maximum Score
Attachment F: Cost Proposal Format (Lowest Blended Rate/Proposer's Blended Rate) x 150 =	150
Attachment G: Task Order (Cost) (Lowest Total Cost/Proposer's Total Cost) x 150 =	150
Total Cost Score	300
Total Technical Points	500
Maximum Points (Cost +Technical)	800

Both proposals advanced to the third stage. This stage consisted of a presentation and interview with each proposer's team, followed by questions and answers.

Interviews were held with the two proposers on May 16, 2016 and the proposers were scored in accordance with the criteria in Attachment C of the RFP, as listed below.

ATTACHMENT C: CRITERIA FOR AWARDING POINTS FOR THE INTERVIEW

INTERVIEW EVALUATION CRITERIA	Maximum Score
<p>1. Interview Presentation:</p> <ul style="list-style-type: none"> • Proposer's presentation provided demonstrated experience and understanding of the critical project success factors of similar projects they have worked on and how this experience and the strength of their team will support a project with the magnitude of the challenges and complexity facing the Authority. • Appropriateness of the team members presenting and level of value. 	100
<p>2. Interview Questions and Answers:</p> <ul style="list-style-type: none"> • Proposer's response to the questions demonstrated ability of team to coordinate and provide responses reflecting the necessary subject matter expertise to perform the Scope of Work. • Proposer's response demonstrated understanding of topics and issues, and an ability to offer a clear response to the questions. 	100
Total Interview Score	200

The proposers were then ranked based on the combination of three scores: Technical, Cost and Interview. On May 17, 2016 a Notice of Intent to Award was posted at the Authority's office, on the Authority's website and notification sent to the proposers. No protests were received during the statutory protest period. Based on the total scoring, KPMG LLP was the highest scoring proposer and was awarded Primary Contractor. EYIA LLC was the second highest scoring proposer and was awarded Secondary Contractor.

Summary of Scores:

Vendor:	KPMG LLP	EYIA LLC
Technical Score:	453	425
Cost Score:	300	213
Interview Score:	180	178
*Non-Small Business Preference:	47	47
Total Score:	980	863

*Non-SB Preference- points increased by 5% of the total points awarded to the highest scored non-small business bidder.

Background on KPMG LLP

KPMG's Infrastructure Advisory global practice is recognized as a leading infrastructure advisor worldwide. KPMG International's Member Firms have more than 3,000 dedicated professionals providing infrastructure development, strategic, and financial advisory services in 110 countries and have provided support to a number of high-speed systems around the world. KPMG provides high-quality, objective advice on a broad range of projects including bridges, highways, high-speed rail, transit and commuter rail, multi modal systems, airports, ports, social infrastructure, and utilities. Among its projects, KPMG in the UK is the financial advisor for the HS2 system which is similar in size and scope to the Authority's project.

KPMG has served as the Financial Advisor to the California High-Speed Rail Authority for almost five years. They have proposed a team with experience with the Authority and with direct experience in international, US and California transportation project financing including high-speed and other rail projects. KPMG also serves Caltrans, Los Angeles MTA, the City of Anaheim, Riverside County Transportation Authority and other transportation agencies in California. KPMG has a significant presence in California employing over 3,900 professionals in offices in Sacramento, San Francisco, Silicon Valley, Woodland Hills, Los Angeles, Walnut Creek, Orange County, Seal Beach, and San Diego.

Background on Ernst and Young

Ernst and Young is a global leader in assurance, tax, transaction and advisory services with more than 220,000 people worldwide and over 5,000 across the State of California located in 11 offices. In the US, Ernst and Young, provides financial-related advisory services which cover all tasks of the RFP scope of work. In particular, Ernst and Young is a global leader with over 11,000 practitioners in the US providing services to transform the financial and procurement operations of clients through focused improvement in processes, organizations, technology and controls. Ernst and Young is accomplished in managing large scale transformation projects and implementing complex system solutions.

Ernst and Young is also a market leading advisor to public agencies globally on the finance, procurement, delivery and management of essential infrastructure. In the US, Ernst and Young serves state and local clients through EYIA LLC, a specialized US infrastructure advisory firm

within Ernst and Young which is an SEC-registered Municipal Advisor. EYIA LLC efforts in the US includes work on more than US\$20 billion of recent and active infrastructure projects, among them several of the largest and most complex undertakings in the country. EYIA LLC have assisted clients in the establishment of major new programs including the establishment of Public Private Partnership (PPP) programs within major state transportation agencies as well as in the review of existing initiatives.

Small Business Requirement

Both KPMG LLP and EYIA LLC have committed to meeting the Authority’s 30% Small Business Goal, including the 3% DVBE requirement and included qualifying firms in their teams. KPMG subcontractors include Impacts USA, Gilbert Associates Inc, Real Estate Strategies and Solutions, Real Estate Consulting Solutions, Inc., Sperry Capital Inc., and Alexan RPM. EYIA LLC’s subcontractors include Richardson and Company LLP, Cambria Solutions Inc., VSCE Inc., William R. Gray & Co., Keyser Marston Associates Inc., Emerging Technologies Associates, Inc., and Dennis Nelson CPA, APC.

Legal Approval

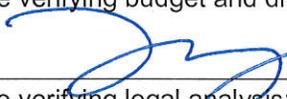
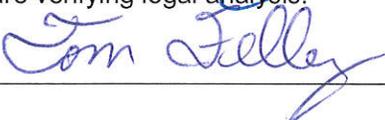
This RFP was conducted with the assistance of and under review of the Authority Legal Office. Additionally, the Authority Chief Counsel has reviewed and signed this agenda item.

Budget Implications

The total value of these contracts is not to exceed \$40 million (\$40,000,000) for both contractors. These contracts are approved in the budget plan and will be funded with state funds.

Recommendations

It is the recommendation of Authority staff that the Board approve the contracts with highest and second highest scoring proposers, KPMG LLP (Primary) and EYIA LLC (Secondary), in a combined amount not-to-exceed \$40 million (\$40,000,000) for a term of 4 years for both contractors.

REVIEWER INFORMATION	
Reviewer Name and Title: Russell Fong, CFO	Signature verifying budget and division analysis: 
Reviewer Name and Title: Tom Fellenz, Chief Counsel	Signature verifying legal analysis: 

Attachments

- Resolution #HSRA 16-20
- Resolution #HSRA 16-02, approved on January 12, 2016