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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
October 11, 2016**

**County of Sacramento Board of Supervisors
700 H. Street, Hearing Room 1
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on October 11, 2016 at 11:00am.

Committee Board Members Present:

Mr. Michael Rossi, Chair

Mr. Tom Richards

Authority Staff Present:

Mr. Jeff Morales, CEO

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. Mark McLoughlin, Director of Environmental Services

Mr. Paul Engstrom, Third Party Manager

Mr. Jeff Mathews, ROW

Ms. Deborah Harper, Chief of Administration

Rail Delivery Partner Staff Present:

Mr. Gary Griggs, Program Director

Minutes prepared in the order items were presented during the meeting

Agenda Item – August 2016 Meeting Minutes

- No comments.

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

- None

Current Issues –

- Mr. Rossi stated that the Finance and Audit Committee reviews cash flows every meeting. Everything is listed showing exactly what the revenues and expenses are. People should review footnotes 3 and 6 on the cash management report to see where the cash flows are coming from. Regarding the recent \$125M shortfall in Cap and Trade auction proceeds, in the business plan, there is a projection that shows that if we were to hit all those numbers we'd have a \$177M surplus. Having said that let's be

clear that this is an organic exercise. Numbers change, Cap & Trade will change, they'll go up and down. This will require us to constantly reevaluate the projections and model it. The numbers are here and if you read the report, it is clear, it is defined and it is footnoted, there hasn't been any change. There is \$400M in Cap and Trade monies that is available to the Authority and is currently on loan as footnoted. As we move through this process, we will take whatever the criticisms there are and address them. The numbers are here and the business plan is clear on how it works. If we look at the business plan, the \$177M surplus includes funds that we are holding in reserve. There are no meetings cancelled because we are afraid to disclose it, and all the information is put on the website. The F&A Committee couldn't be more transparent than if it was clear as glass and this committee takes its work very seriously and if there is an issue of transparency, Mr. Rossi would be happy to address it.

Agenda Item - Financial Reports –

Questions asked and answered on agenda items discussed included:

Agenda Item: Executive Summary -

- Mr. Rossi requested that Mr. Fong discuss anything the F&A Committee should be aware of. Mr. Richards asked Mr. Fong to focus specifically on things that may be out of the ordinary or something we have not seen before. Mr. Fong replied that everything he thought was important is documented on the Executive Summary Report. There is nothing earth shattering at this point and time. We are on target for spending for where we should be at this point and time. Highlights include three new escalated items for the Projects and Initiatives Report at the end on page 5. Mr. Rossi remarked that he had specific questions but to hold off on this item for now. Mr. Richards asked Mr. Fong to explain a minor thing on page 3 of the Executive Summary Report. Is the report talking about a percentage of personal services or personnel services? Everything says personal vs personnel. Mr. Fong replied that it was personal services. Mr. Fong wanted to point out the Authority's focus on spending federal funds. Currently, as of last week, we are at 75.2% which is \$1.919B of ARRA funds spent, so we have \$633M left to spend and we are on target as of now.

Agenda Item – Projects and Initiatives Report Update –

- Mr. Rossi stated that the Projects and Initiatives Report has grown and there are a number of projects in the red which are in the PMIS Cost Management System. Mr. Rossi asked to discuss more about those because it concerned him that as we move down the rows there are a number of important things that we are going to have to stay on top of due to the complexity of the project. Our systems are going to have to work and we are not going to spend a lot of time doing manual entry-data processing. Mr. Rossi asked Mr. Griggs how we are going to address this issue. Mr. Griggs responded that we have been working very diligently on a more sophisticated information system. Mr. Griggs stated that he wanted to make it clear that there is detailed reporting. We have reporting on program status including contracts, we know where we are but we need to bring that the systems to the next level. We need to bring a better system approach that allows for better connectivity with the program and financial information system as well as easier access to performance data and more flexibility in reporting that data. The other thing stressed in this work is enhanced security. We are setting up our own cloud system that we can use through Amazon Web Services so we can make sure we have full security in everything that we are handling. For the items that are shown in red under the PMIS Cost Management and Contract Management Systems, we are putting more attention and resources to that. We are attacking it virtually on a daily basis to help insure that we are putting these things in place as quickly as possible. We have confidence that we are going to get this done to the dates we have established and recognize the importance of this process because we want to get away from manual entry as much as possible. Mr. Richards inquired is this all RDP working on this or combined? Mr. Griggs responded that it is a combined team with the Authority IT group and Debbie Harper and her team are working

closely with the RDP. Mr. Rossi remarked about the initial date scratched out and other dates following scratched out. Mr. Rossi asked if the PMIS Cost Management System that has an end date at 7/14/17 is going to get done on time? Mr. Griggs replied that this will be done by the date established. Mr. Rossi inquired who was assuring Mr. Griggs because there have been several dates changes? Mr. Griggs stated that IT is a challenge but no matter when we try to implement these new systems they are continually changing. Mr. Rossi remarked that we don't want one line out of dates after another and asked if Mr. Griggs was comfortable with getting it done in almost a year? Mr. Richards stated that he thought Mr. Rossi's question was right and asked who is assuring Mr. Griggs? Mr. Griggs answered we are currently working together with Ms. Harper and the IT group at the Authority. Mr. Griggs introduced Gay Knipper who heads up RDP efforts as our operations manager. Ms. Knipper also oversees resources that are being brought into this as we set these systems up and we are very confident that it will be accomplished. Mr. Rossi inquired on which date? Mr. Griggs answered on the date that isn't crossed out. We have gone to great detail to go through the whole governance assessment. Here we are coming into a system and authority that is a new start up so we are working very closely with the Authority team to follow procedures as to how all of IT and PMIS will be handled. We are taking a lot of time to come up with how PMIS is going to be working. Mr. Rossi replied that it was an interesting approach. Normally, you decide what you want and then you develop the Policy and Procedures. Governance comes at the end of the exercise. Mr. Griggs responded that we really felt that we needed it up front to have the policy and procedures. Ms. Harper shared that she thought one of our struggles when we first started that there were a lot of silos and initiatives going on in IT. Governance was put in place to put all of those people in the same room who are developing systems for the authority. So we make sure we are building an enterprise that can be integrated and utilize the platforms that we've procured in the best possible manner. There may be an application in a program that could be used in another silo that could be developed for something else in the organization. Mr. Rossi remarked that it's the use of the term. Where he comes from that isn't governance. Ms. Harper replied that anyone who wants an IT system would come through this process. Mr. Rossi shared that this is not governance. Governance is policy and procedures. What you are talking about is an actual management process for getting from point A to point B. Ms. Harper stated that there are also plans for developing policies. Mr. Rossi said that's fine but you don't develop policies until you know what you want. Mr. Rossi asked if one can develop a policy before you know what you want. Ms. Harper shared that she could say that a lot of the policies are based around security and what's required for California data. Things that are already in place and we wanted to make sure that we were in compliance. Mr. Rossi replied governance in the term that he was referring to is that you could not do policies and procedures until you understood what the outcomes are supposed to be. Ms. Harper stated that it was an effort to centralize how people were accessing and make sure that we are approaching it in a way so that we are maximizing platforms that we already have in place. One good thing about this is there has been a resource change to leading PMIS and he has delivered in other areas on time and within budget and he believes that shift to that resource is a really positive move. Mr. Rossi stated that he feels more comfortable with the data. Mr. Richards asked Ms. Harper how long the resource had been in place. Ms. Harper answered two months, since Sept 1st. Mr. Rossi asked Mr. Griggs what was the probability of hitting the 7/14/17 date? Or are we going to see another line next month? Mr. Griggs answered that it was very high. Mr. Richards remarked that his concern would be to have in place whatever it takes to make sure it happens. Not the probability necessarily, not how do you feel it is going to happen, but how are you going to ensure that it will happen, because it is necessary to throw the resources at it to make sure this is going to happen. Ms. Harper shared that Ms. Knipper has put a very detailed schedule in place on how this would take place and how this would happen. Ms. Knipper receives detailed reports daily and if there is a one day slippage they report this to her. Mr. Rossi remarked that we are going to assume that you have all this stuff so it gets me back to my probability. Are you comfortable that you are going to hit this date? Mr. Griggs answered yes. Mr. Rossi asked if there were any other questions. Mr. Richards remarked on baselining that he doesn't want the F&A Committee to lose the

historical record of what it was before the re-baselining. There is value in projecting future work. Re-baselining means that we have to do a better job in the original budgeting or projections. He asked Mr. Fong if that was being done? Mr. Fong answered yes. Mr. Richards continued that we don't just put it in a corner; we utilize it, generate it in business to move this project forward. In general every time he sees re-baselining it makes him want to secure the historical information because re-baselining is used to record data. At the end, we compare what was the original, what was re-baselined and how far were we away from the original cause. This is what will be utilized to project the future. Mr. Rossi confirmed this is done even though they didn't use to and that re-baselining in his career has always cost him more. In projects like this you have to baseline a lot.

Agenda Item - California Build High-Speed Rail Operations Report –

Items discussed:

ROW – CP1ABC Parcels Delivered to DB by Month

Mr. Rossi remarked on page 10 that as you look at the chart, September was a great month as we accessed some parcels, everything seems to be tracking pretty well, but when you talk about the averages, if you take the middle/end of June it is somewhere between 71.4-72 in spend and you look at the numbers here. We assume the spend numbers reflect these numbers we get a bit of a step up here and do you have plans we can hit those both? We actually are concerned about the ARRA spend, not getting the actual parcels, but they go hand in hand, so it's the period. Along those lines, as you compile these together are you comfortable with tracking even though the averages are low numbers when you look at the next 5 months of spend and you look at ROW there is an uptake, you can put some focus on that so you can make that happen. Mr. Griggs answered that if you look at Mr. Jarvis' report today you can look at the construction that is underway on CP-1 is very impressive with major structures coming out of the ground all over the place. As you can see major spending expenditures going forward, we are working hard to bring completeness in the ROW process. Mr. Jarvis replied that in relation to that we expect to get some key parcels through the order of possession process in the coming months as well. Some of the overpass projects in the northern passages in the coming months are very hopeful with the construction spend.

ROW – CP2-3 Parcels Delivered to DB by Month

Mr. Rossi commented on page 22 that this one gives him pause on ROW. A great job was done on getting out ahead of the curve even with an odd plan that existed that was considerably off the page. What is being done to address the issue? Mr. Griggs answered there was no doubt that the plan was somewhat optimistic in what was anticipated to deliver early. That is why we have shown the reforecast with a more reasonable goal which shows a pretty good progress in terms of ROW delivery for CP2-3. We've got ahead of it and trying to make sure we keep up with it. One challenge with CP2-3 is that the contractor is not quite as responsive as the CP1 contractor is in terms of working outside of the original plans. That is one of our challenges, right now working very closely with the CP2-3 contractor to come up with a similar approach as with CP1 to identifying priority construction locations and zeroing in on additional parcels. That is one of the challenges we are facing. Mr. Richards asked is there any progress with that? Mr. Griggs shared details of a meeting with them several weeks back and how they are meeting now on a regular basis. There was a partnering meeting with Mr. Morales, CEO, and their CPO. The contractor was there and a commitment made on one of the construction sections. Mr. Jarvis replied that specifically on that, similar to the approach on CP1 getting our focus on getting the piece underway. Mr. Morales identified that on the northern end of CP2-3 there is a 6 mile segment where we have the ROW in place. We've worked with them to get that underway. There is some irrigation work that needs to be done. We are taking similar approaches to get underway, at the same time we are looking at the ROW process. Back to the earlier reports that in various levels of the project delivery is ROW being discussed some time of day and in some kind of way. With these process improvements and it is without question the # 1 focus organizationally in

continuing to do better. Mr. Morales stated that he wants to make sure the committee understands the level of focus on this constantly. Mr. Rossi stated that he has no doubt that the focus is there. It is the results that matter.

Total ROW Expenditure by Month and ROW-CP1 Expenditure by Month

Mr. Rossi moved on to pages 34 & 35, noting that there is a whole row of expenditures, most of the over expenditures are in CP1 and if looking at this it's about \$50M. Are we reading the charts right? Mr. Tapping answered yes. Mr. Rossi asked Mr. Tapping if we are covered. Mr. Tapping replied yes, that he was confident that with each contract we will be very close. Mr. Richards stated that he expects that the deviations are primarily in the developed areas.

Mr. McLoughlin mentioned one error on page 44 item #8 on published draft it should be 70% instead of 5%. Mr. Rossi asked about ROW on the particular pieces needed for the North and if we are on schedule. Mr. McLoughlin answered yes.

Contracts Contingencies

Mr. Rossi inquired with Mr. Tapping as to what bothers him. Mr. Tapping stated that it's Third Party Agreements and Right of Way. These continue to be the biggest cost drivers on the CP contract and we're pressing time but last update showed that we're managing within our contingencies. We are continuing to update those and expect to have an update in several months of tracking the new system. Mr. Rossi asked how often do you update the contingencies. Mr. Tapping stated that if we go to the charts on page 95 & 98 were we'll see CP1 and CP2-3 is really a contingency draw down tool that is used. It establishes a floor based on federal guidance. The chart on page 94 shows some of the risks that may materialize at certain milestones of the project. So we can do projections of where we think maybe using 50% of probable outcome and so we update when that red dash crosses the floor is a trigger that we need to update. It is not saying that we have a problem. It's just an indication that we should assess the risks. In CP1 we recently did that and in CP2-3 we did that by reporting the update in December. We are updating it again now and generally use these as a milestone tool as to when to trigger an update. Does it make sense? Mr. Rossi stated that it does, however, the question is-are you comfortable with where we sit? We are looking at a photo, a point in time as we sit here today. We don't see anything that concerned him about the contingency being devoured inappropriately but if there was anything that concerned him? Mr. Tapping stated that not at this time. This is a process that we'll keep using to update this report. Mr. Richards asked about the Third Party Agreements. Mr. Tapping stated that it is important that interfacing utilities be relocated in a timely way. Mr. Jarvis and the team are working diligently. It is the kind of thing that can hold up construction and this is one of the risks that we have identified contributing to the contingency. Mr. Morales stated that specifically turnaround times on their reviews, drawings and designs are an issue. We are in the process, Mr. Jarvis was meeting with them last week and needed to elevate within the companies to get a higher level of service because that is what we are paying for them to do, the review. We need to make sure it stays on the schedule that we agree to. It truly is the management of the risk as we come through to this point that is the concern for everyone. Mr. Griggs stated that as is always the case we have cost and schedule pressures due with ROW and 3rd party issues. We will continue to address them as they arise as Mr. Tapping stated that we will reevaluate the contingencies in the future.

Mr. Rossi asked Mr. Richards and the committee if there was anything else? Mr. Richards stated no. There was no response from the committee. He thanked everyone for their participation.

There were no further discussions and meeting adjourned at 11:40 am.