



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES  
February 10, 2015**

**Cal EPA Building  
1001 I Street, Second Floor Training Room  
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on February 10, 2015 at 8:00am in the Training Room of the Cal EPA Building.**

Committee Members Present:

- Mr. Michael Rossi, Chair
- Mr. Tom Richards
- Ms. Thea Selby

Authority Staff Present:

- Mr. Jeff Morales, CEO
- Mr. Dennis Trujillo, Chief Deputy
- Mr. Tom Fellenz, Chief Counsel
- Mr. Russell Fong, CFO
- Mr. Frank Vacca, Chief Program Manager
- Mr. Scott Jarvis, Assistant Chief Program Manager
- Mr. Robert Magnuson, Chief of Communications/External Affairs
- Ms. Paula Rivera, Senior Management Auditor

Minutes prepared in the order items were presented during the meeting

**Agenda Item – Minutes from January 2015**

Questions asked and answered. Issues discussed included:

- Mr. Rossi asked if Mr. Richard’s request on page 1 last bullet point under Financial Reports to have “a line and total added under Program 10 Annual Budget” was addressed. Mr. Richards confirmed request was accomplished.
- Mr. Rossi asked if the page 2 fourth bullet point under Financial Reports “Mr. Morales said that the plan is to have the disputes resolved by end of February” was still on target. Mr. Morales responded yes and there is a mediation scheduled tomorrow to resolve the disputes.
- Mr. Rossi asked about page 2 first bullet under the Audits Division Update if Mr. Morales looked into why changes were made. Mr. Morales explained that the contracts were originally going to be procured using A&E contracts that are treated separately under State and Federal law. The rates are audited because they are qualification based. They were changed to task based contracts in order to not pay on a time and materials basis. The rates are not audited but they do go through a DGS review.
- Mr. Rossi requested page numbers on minutes.

- Mr. Rossi asked about page 3 second paragraph under CP 1 Project Update “he would like to see what the outside companies are doing related to key work accomplished for the project”. Mr. Jarvis responded that he has and can share that information and it will be added to the CP 1 Project Update going forward.
- Mr. Rossi asked what the status of page 3 second bullet point under CP 1 Project Update “Mr. Tapping responded it is based on negotiation steps that Mr. Jarvis’s team will have with TPZP”. Mr. Jarvis responded that there was a partnering session with the contractor held last week. The meeting covered resolution of issues and plans moving forward. Next week Scott will be in Fresno to cover delay issues and to work on global resolution with the contractor. Quite a few issues relate to the delay. Mr. Rossi asked how you do a global resolution without understanding all the underlying issues that need to be resolved. Mr. Jarvis responded that the Authority understands the underlying issues. Mr. Rossi asked how we get to a global resolution without negotiating each issue. Mr. Morales responded that we don’t want to resolve piecemeal. Mr. Rossi commented that making that decision is a time issue and if it doesn’t happen we increase time of finding a resolution. Mr. Rossi asked if it is known what the probability of one verse the other is and whether the tradeoffs make sense. Mr. Jarvis responded that is something that is being worked on with Mr. Tapping.

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

Questions asked and answered. Issues discussed included:

- No comments.

#### **Agenda Item - Financial Reports – Russell Fong**

Questions asked and answered. Issues discussed included:

- Mr. Richards asked what PTA stands for. Mr. Fong responded Public Transportation Account. The Authority is using this account for their administrative budget loan.
- Mr. Rossi commented on the Summary of Year to Date Expenditures by Program that when you look at the percentage of the year completed and compare it to the percentage of budget expended it’s remaining about 6%. Mr. Rossi asked is it a timing issue Mr. Fong responded that it is timing and we will catch up in the third quarter. Mr. Rossi stated that if we don’t catch up in the third quarter we should save it. Mr. Fong responded that we won’t spend on items or services that are not needed.
- Mr. Richards asked why public information and communications remains so low. Mr. Magnuson responded that it is a timing issue and will catch up. The Authority usually runs under budget for this particular line-item. Mr. Richards asked if Mr. Magnuson agrees that we should be under budget. Mr. Magnuson thinks that the Authority has done enough and satisfied with the programs we have. Mr. Trujillo added that the Department of Finance made the decision to allocate a continuous appropriation of \$500,000 for External Affairs and Communications needs, and we have never completely expended the money. It is there in case we need to do a public outreach campaign using the media and audio video work. Mr. Rossi asked why if we have the money should we not do more. Mr. Magnuson responded that the plan is to do more. Mr. Richards asked if we should get out in front of ourselves rather than being reactionary. Mr. Magnuson responded that is the priority and we are being aggressive. Mr. Richards responded that we are moving into communities that do not know we are there. We need to generate some positive public relations. Mr. Magnuson responded that the Authority plans more outreach and media coverage, more TV and more on the website. Mr. Morales responded that next month we will provide a specific plan for the \$500,000 budget knowing that some portion will be left unspent. Mr. Rossi stated that if we have the plan and the money we should do everything we can.
- Mr. Rossi asked on the Executive Budget Summary page 2 how do salary wages and benefits do not increase by the same percentages and why page 7 OE&E increased so much. Mr. Fong responded that the Authority never was budgeted for the Caltrans loan staff and that expense is being paid with the OE&E budget. Mr. Richards asked for Mr. Fong to add a footnote for the next meeting. Mr. Rossi

commented that there appears to be inconsistencies between benefits and salaries and he recommends not breaking budget. Mr. Fong replied that the actual executive salaries are higher than originally budgeted.

- Mr. Richards asked Mr. Fong if we need to reforecast the budget. Mr. Fong responded that as long as we stay within our overall budget the Authority will be fine. As we mature as an organization and continue to capture historical financial data, our budget forecast will become more accurate.
- Mr. Richards asked about the vacancy rate change. Mr. Fong stated that the vacancy rate increased from 13.8% to 14.9%. Mr. Morales added that with the 35 new positions scheduled to be filled in the next 3 months that number will improve over the next 2 or 3 periods. Mr. Rossi asked about the average vacancy rate. Mr. Fong replied the average range is approximately 10% to 13%
- Mr. Richards asked about Capital Outlay and Expenditure Report and how the use of expenditures are decided? Mr. Fong replied the first determining factor is the source of the funds and what they can be used for. Mr. Morales added that the expenditures are based on a combination of the statutory restrictions and agreements with the FRA. Mr. Fong added that's his responsibility.
- Mr. Rossi asked about the timeline trends on the Project & Initiatives Report that are going up. Mr. Fong stated that the timeline trend for Staffing for Fiscal Year 2013/14 positions is going up due to the new 35 positions. Mr. Rossi asked to put the original dates back on the report. Mr. Fong agreed and will put the revised dates in green font.
- Mr. Rossi asked about Right-of-Way Management System (ROWMIS). Mr. Jarvis replied that there are additional negotiations going on with the proposed vendor and we feel we can meet the 3/30/2015 end date. There is no final agreement with the proposed vendor and the Authority is working with the proposed vendor and DGS to execute an agreement. Mr. Rossi asked that the original end date be shown to signal the projects that are running behind.
- Mr. Rossi asked if there is a concern with the timeline rating for the long-term leased vehicles. Mr. Jarvis stated that we have verbal commitment from CalSTA to move forward. Mr. Morales stated that the signed paperwork is needed to proceed and the Authority will get it signed that day.

#### **Agenda Item – CP 1 Project Update – Scott Jarvis**

Questions asked and answered. Issues discussed included:

- Mr. Richards asked if we are staying static between time and dollars. Mr. Jarvis replied that the dollars will increase substantially this summer with the start of construction. As of now, there have been no time extensions on the project.
- Mr. Richards asked when the parcels will be identified from working with the Contractor to identify parcels critical to the project. Mr. Jarvis said they have been identified and will continue to be refined through the process and to continually determine the critical parcels. There is a schedule with estimated dates that is regularly updated. Mr. Richards asked about the level of comfort to support the requirements of the contractor. Mr. Jarvis replied that about half the parcels for CP1 are delivered to the contractor or contracts have been signed but not yet delivered to the design-builder. Mr. Vacca stated that 50% of the parcels are on condemnation and the schedule assumes about 50% condemnation so the delivery rate to the Contractor assumes this delivery time rate. We are confident that our estimates today meet TPZP's schedule. Mr. Morales added that our condemnation rate will ultimately be far lower than the 50% rate that we now have starting the process.
- Mr. Richards asked about the Time Impact Analysis (TIA). Mr. Jarvis replied that the TIA schedule is showing a theoretical 17 month delay assuming the contractor is staying on schedule with their future activities. This includes the ROW acquisition schedule and 3rd party agreements. To determine responsibility for delay the Authority is working with the Contractor towards a comprehensive resolution. Mr. Richards asked what the expected cost may be. Mr. Morales said the net impact will be less than the initial estimate due to concurrent delays and readjustment of the schedule but this still has not been quantified. We are well within contingency. The agreement will be decided in approximately 6 months. Mr. Rossi asked to see how much time the Authority uses on the analysis. Mr. Morales stated

that we will come back with a proposal for that due to the sensitivity of the information.

- Mr. Richards asked about 3<sup>rd</sup> parties. Mr. Jarvis replied that the critical 3<sup>rd</sup> parties are PG&E and AT&T. Both had representatives at the partnering session last week. No agreement has been executed but both are moving forward on good faith. Ms. Selby asked about the 17 month delay. Mr. Morales said the delay is contractual not a calendar delay.
- Mr. Rossi asked about the Schedule Performance Index (SPI) for the SR 99 project. Mr. Jarvis replied that the project is projected to be delivered on time.
- Mr. Rossi asked about the Economic Benefits on the SR 99 project. Mr. Jarvis replied that there is little current opportunity to subcontract work due to the current scope of work being constructability reviews of the design plans by the construction contractor hired for its expertise. With the start of construction there will be much more opportunity to bring in more subcontractors that are small businesses and disadvantaged businesses.

**Agenda Item – CP 1 Project Update – Scott Jarvis**

Questions asked and answered. Issues discussed included:

- Mr. Rossi wants to know if Mr. Tapping constantly updates his Monte Carlo analysis. He would like the Monte Carlo analysis presented by Mr. Tapping at the next meeting.

**Meeting adjourned at 8:47 am.**