DRAFT
FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
May 12, 2015

Sacramento County Board of Supervisors Chambers
700 H Street
Sacramento, CA 95814

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on May 12, 2015 at 8:00am in Hearing Room 1 of the Sacramento County Board of Supervisors Chambers.

Committee Board Members Present:
Mr. Michael Rossi, Chair
Mr. Tom Richards

Board Members Present:
Mr. Lou Correa

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. Jon Tapping, Risk 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 April 2015
- Approved without comment.

Agenda Item – Action Items from Previous Finance and Audit Committee Meeting
- None.

Agenda Item - Financial Reports – Russell Fong
Questions asked and answered. Issues discussed included:

- Mr. Rossi asked for the reason for the increase in the full time equivalent (FTE) vacancy rate. Mr. Fong responded that the Authority was given 35 permanent positions. This increased the funding for the current year by $2.3 million dollars and increased the vacancy rate to 30.8%. Today, the vacancy rate is currently 24.8%. The spike in the FTE vacancy rate is directly related to the 35 new positions. Our vacancy rate before the additional 35 positions was 13.9%.
- Mr. Rossi asked about the huge bump in dollars expended as a percentage of total budget in the capital outlay report. Mr. Fong responded that the budget was adjusted to fit the shift in the schedule due to the Right of Way (ROW) delays. The current budget percentage went up over 40% but the budget went down. Mr. Rossi asked why the budget went down. Mr. Fong responded that it was due to the scheduling shift. The budget was adjusted to what the Authority will actually spend this year. Mr. Richards asked when that happens does the Authority reforecast the budget. Mr. Fong responded that the Authority will do a budget reforecast. Mr. Rossi commented that if a change is made to the budget, it must be brought back to the Finance and Audit Committee for approval. Adjustments have been made to reflect the revised schedule based on ROW acquisitions. Mr. Richards asked how many times this has happened in the course of the year. Mr. Fong responded that this has happened twice.
- Mr. Rossi asked for an explanation of footnote #2 "for use of benefits only" on page 8 of 21 of the Budgets and Expenditures Report. Mr. Fong explained that it implies that the dollars are to be used for benefits only. Mr. Richards asked how the benefits in terms of percentages are not tracking with salaries. Mr. Fong responded that the salaries and benefits are directly tied to the positions. Different salary levels and classifications have different levels of benefits. The vast majority of positions are budgeted at the mid-level range. To achieve our goal of hiring the most experienced and knowledgeable staff, we tend to hire at the high-level range. This can cause a discrepancy between salaries and benefits. Mr. Correa asked for an explanation of footnote #1 "Salaries/Wages and Benefits are projected to be over budget due to a 2% General Salary Increase (GSI) and the need to hire above mid-step hiring range. Per Cal HR Pay Letter 14-08, "Effective July 1, 2014 the California Department of Human Resources (CalHR) has approved a 2% GSI for several CA high-Speed Rail Authority Bargaining Units". However, the High-Speed Rail Authority will not receive an increase in the Public Transportation Account Loan appropriation of $31,577,000 for GSI." on page 8 of 21 of the Budgets and Expenditures Report. Mr. Fong responded that due to past Prop 1A legal limitations the Authority received a PTA loan to pay for administrative costs. Departments received a 2% increase to cover the salary increase employees received except for HSR due to the difficulty in increasing the PTA loan amount. Next year this will be part of the budget.
- Mr. Rossi asked for an analysis of the current management and organizational structure, specifically an explanation of the average salary by division at the next meeting.
- Mr. Richards asked about the Capital Outlay Budget and how the cost of ROW compared with other areas of the budget. Mr. Fong responded that the Authority has spent $25, $26, and $31 million over the last 3 months and the Authority is on target to spend 100% of the Cap and Trade ROW budget by the end of this year.
- Mr. Correa asked about the performance of the law firm Nossaman. Mr. Fellenz responded that they are doing a good job but the Authority is looking to make changes. The Board voiced concern that too much legal services is coming from one law firm. The Authority is also looking at increasing small business participation. There was an emphasis that new firms are based in California.
- Mr. Rossi asked on page 5 of the California High-Speed Rail: Operations Report if the numbers for ROW looked on track because the planned numbers were adjusted. Mr. Fong responded that is correct. Mr. Rossi then asked, with having readjusted the numbers, is there concern that the new numbers will hit the requirements of ROW. Mr. Fong responded that based on the trends seen over the last quarter he feels comfortable that the Authority will be close to the new budget. Mr. Rossi then asked Mr. Tapping if the Risk Management oversight has enough built in that if there is slippage the Authority is covered. Mr. Tapping responded yes. The Authority ran a Monte Carlo analysis that considers pessimistic, optimistic and most likely scenarios and the results indicate that the current contingency is sufficient.

- Mr. Richards asked if there is concern with the delivery of parcels. Mr. Jarvis responded yes. A majority of the acquired parcels have been transferred to the design-builder for CP 1. Now the Authority is working through the condemnation process for many of the remaining parcels. 232 resolutions of necessity have been processed by the Public Works Board and of those 100 suits have been filed. The challenge is getting orders of possession. Once a hearing has been held for orders of possession, it's 60 to 90 days before we obtain access to those parcels. The design-builder is able to work on 5 areas of major work that are on the critical path. Mr. Richards asked how the delivery of parcels contort with the critical path. Mr. Morales replied that based on the progress of the Fresno River viaduct, by the end of this month it will be under major construction as well as 4 other significant locations by mid-June. The Authority is able to deliver the parcels to the design-builder in the right chunks to start major construction.
- Mr. Rossi asked on page 18 of the California High-Speed Rail: Operations Report if the average monthly expenditures needed to meet forecast ties in with the ROW. Mr. Jarvis replied that it is unlikely that the Authority is going to spend $93 million per month for the rest of this fiscal year. Mr. Morales added that although major construction is starting this month, there is going to be a lag in spending due to the time it takes for invoicing. Mr. Richards commented that if the budget is reforecasted, they need to know what the numbers changed from and to and the Board needs to approve it.
- Mr. Rossi commented on page 19, 20, and 21 of the California High-Speed Rail: Operations Report that if the monthly spend will not be met adjustments need to be made. Mr. Rossi also asked about Page 19, if the contingency amount is ok. Mr. Tapping responded that it is. Mr. Rossi commented that as an operating exercise if the numbers are not going t happen, the Board needs that information to perform oversight. They know the numbers will change, but when the internal budget is recast, they need to show it. Page 11 curves show we are way behind, Page 15 shows the budget changed, as does Page 16. Mr. Fong identified that the budget changed from $1,498M to $747M. Mr. Rossi asked if we will hit the monthly spend on Page 20, and Mr. Jarvis replied that we won't this fiscal year.
- Mr. Rossi asked on page 24 of the California High-Speed Rail: Operations Report how the contingency floor was established. Mr. Tapping replied that 3% of the total contingency is reserved for potential costs arising at or following Substantial Completion. This percentage is based on Federal Transit Administration guidance. In between Notice to Proceed (NTP) and Substantial Completion, the floor is set based upon FTA's contingency targets at each contingency milestone shown on Slide 26. When a reassessment is triggered as illustrated on Slide 26, an updated Monte Carlo analysis will be performed to inform the current contingency drawdown trending. Mr. Richards asked if the contingency would be adjusted when a reassessment is completed. Mr. Tapping responded that potential contingency adjustment would depend upon several factors e.g., if various risks had been retired or realized, if a contract change order had been approved for risks that may have been realized, if certain risks had increased or decreased, and if additional risks or opportunities had been realized. Mr. Tapping stated that a recommendation based on the particular facts would be made to the Board by the Risk Manager.
- Mr. Rossi commented that these conversations are normal for a Finance and Audit Committee; it is expected to have things change from the initial plan and that there are and will be lags. The concern is that they are reported in a manner that is understandable and what is being done to address the lags.

Agenda Item – Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Mr. Rossi commented that there are to be no more systemic issues regarding policies and procedures. Mr. Rossi asked Ms. Rivera to audit the policies and procedures and to write up managers when they are not followed. Management needs to have policies and procedures, they need to read them and know what is in them. It is not good enough to have policies and procedures, management needs to know if they are good and know how to use them. Management is responsible for functioning policies and procedures. Mr. Corea noted that we are under a lot of scrutiny and need to be accountable.

Agenda Item – CP 1 Project Update – Scott Jarvis

- No questions asked.

Current Issues

- Mr. Rossi asked about the schedule of the 2016 Business Plan. Mr. Morales responded that the Business Plan is due by May 15th of every even year. The plan is to have the Board approve the plan in April with a draft released 60 days prior to that. Mr. Rossi asked why the Business Plan is submitted for public comment before being submitted to the Board. Mr. Morales responded that the challenge is whenever sharing information with the Board as a whole, it becomes public information. The Authority is not able to work through preliminary drafts unless it's shared with the public. Mr. Morales clarified that the draft is released to the public through an informational item at a Board meeting, the February meeting. Public comment will be accepted at the February and March meetings.

Meeting adjourned at 8:49 am.