



DRAFT

FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES

October 6, 2015

**California Department of Health Care Services Building
1550 Capitol Avenue
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on October 6, 2015 at 9:00am in the California Department of Health Care Services Building.

Committee Board Members Present:

Mr. Michael Rossi, Chair
Mr. Tom Richards

Board Members Present:

Ms. Thea Selby
Ms. Lynn Shenk
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. Jon Tapping, Director of Risk Management and Project Controls
Mr. Scott Jarvis, Chief Engineer
Ms. Deborah Harper, Chief Administrative Officer
Ms. Paula Rivera, Senior Management Auditor
Mr. Alan Glen, Director of Real Property
Mr. Mark McLoughlin, Director of Environmental Services

Minutes prepared in the order items were presented during the meeting

Agenda Item – September 2015 Meeting Minutes

- No comments.

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:

- **Operations Report** – Mr. Rossi stated that the rollout of the private sector parcels verses public sector parcels is troublesome. It looks like the September number is around 13 with a trend that is flat to down. Mr. Rossi asked what is being done in CP1 to drive more parcels and what is being done with the contractor to ensure the slowdown is not detrimental to the ongoing construction of CP1. Mr. Richards asked specifically about the seven early construction locations. Mr. Glen replied that we have focused on the settlement teams approach to increase the number of negotiated deals. We have hired a new right of way agent, Jeff Matthews, assigned to Fresno several days a week to work with the right of way consultants to break down some of the barriers that are keeping us from being able to close the deals. Mr. Rossi asked what are those barriers. Mr. Glen responded that some are misunderstandings about the process. Some are conflicts between the agents in the field on approach and understanding. By bringing in a higher level manager to facilitate those discussions, we can usually break down those barriers and move towards resolution. In some cases it's a difference between their appraised value and our appraised value. We analyze the 2 and try to find the appropriate middle ground to reach resolution. Mr. Richards asked if this is before or after our consultants have stepped aside. Mr. Glen replied that we would like to keep the consultants involved. Mr. Richards asked if one of the challenges is the relationship. Mr. Glen responded that rarely is the consultant the issue, however there have been four different agents that have not represented us the way we wanted them to and we have removed them from the project. Mr. Rossi asked if Jeff Matthews is going to have enough authority to do what is needed. Mr. Glen responded yes, however keep in mind that these parcels are still being acquired by the Public Works Board and require their approval.

Mr. Rossi asked about the seven early construction locations. Mr. Glen replied that we have been working with TPZP to identify what parcels are critical to start meaningful construction and what parcels can be deferred a little bit later. We are meeting weekly to discuss the progress. We are going to have two settlement teams, one is headed by the new hire and one headed by Don Grebe. Of the seven locations, five of them may be successful starting construction this year. The other two include the San Joaquin River area that has changes associated with the Herndon ATC and the Fresno Viaduct section that includes three bridges within that segment. We are trying to get enough parcels to start one of the three bridges. We need to assemble enough parcels to make construction meaningful. Mr. Jarvis added that we have enough right-of-way at four of the locations for the contractor to begin work. Mr. Richards asked what we need to do to ensure construction at the seven locations. Mr. Glen replied that there has been a champion that has been identified for each of the seven locations, both from the high-speed rail and contractor side. There are weekly meetings occurring with those discussions. The Right of Way Division has weekly focused discussions on those parcels and what we can do to accelerate their delivery. Mr. Richards asked how many parcels. Mr. Glen replied somewhere between 20 to 25 for the seven locations for the initial meaningful construction. Mr. Rossi summarized that, from a right of way perspective, four of the seven are done, two do not have enough parcels to start construction and may be delayed into spring, and one additional that has the potential to start before the end of the year. Mr. Richards asked how the locations starting construction in the spring impacts overall schedule. Mr. Jarvis replied that the schedule is behind and the longer it takes to start construction the more negative the impact is on the schedule. Now we are working with the contractor and looking at these seven locations. We have the co-champions from the Authority and TPZP to work on getting meaningful construction at these locations. It's now a matter of working with the contractor on where we are at with right of way, where we are at with our other activities, re-baselining the schedule, and doing what we can to mitigate and manage the delays. Mr. Richards asked when will we see a re-baselining in the schedule. Mr. Jarvis responded in the next couple of months. Mr. Rossi asked for a date. Mr. Jarvis responded by the first of the year. Mr. Morales added that on the seven locations we have reached agreement with the contractor to focus on those because those are the long lead items and the high cost items for accelerating work. It is not only about right of way, there are a whole number of things that need to happen to go into construction, some of which are our responsibility and some are the contractor's responsibility. The champions are working on both sides. We set up these teams to

work on all of the issues. What we are seeing now is that right-of-way is increasingly becoming less of an issue at the seven locations. Mr. Jarvis added that we keep track of the key activities at these seven locations that need to be completed to start construction. There is a shift with more of these activities that have not been completed yet are the responsibility of the contractor. Mr. Richards asked how the shift affects how Right-of-Way can bring in the other parcels. Mr. Glen responded that these parcels are the highest priority in Right-of-Way. Mr. Rossi summarized that right of way continues to be a problem but is a lesser problem for these seven locations. We have four where we are in good shape with parcels to move forward, we have one location that is in a transition state and two where right of way is still a problem. There are a number of other problems with the seven locations with some being ours and some the contractor's. Mr. Morales added that we are moving into a new phase with the right of way process overall. Of those 436 parcels acquired not a single one has gone through the entire eminent domain process. At some point we will exhaust our ability to reach successful negotiations. What we will see is more parcels being acquired through the eminent domain process. We will continue to negotiate throughout with our goal to reach a negotiated settlement as opposed to going all the way through. We have gotten 40% of the parcels through negotiation. That is a positive but now we will have to start the next phase. Mr. Richards added that we can't put the project in jeopardy while we are trying to negotiate.

Mr. Rossi asked if we are going to make the dates on the environmental report and summary. Mr. McLoughlin responded that we may be able to make some of those dates. As of last week we had a large kick-off meeting with federal and state agencies to show the status of the project, with the aggressive dates that we are asking for the project. That was a positive meeting on both sides. We dealt with the agencies that we need to ask for help with the staffing at the regional and federal level to do those sections. That's the first step of turning the tide with those agencies in the regulatory process. We need them to help us move the project forward. Permitting is part of the same conversation for enabling construction and mitigating compensation. They are very aggressive dates. They have been presented to the agencies and the right players who understand them. They are going to provide us with staffing plans to meet those resources for those dates. Mr. Rossi asked, are we going to make all of the 10 dates? Mr. McLoughlin responded no. Mr. Morales responded yes to the end dates. All the data has not been seen. The meeting we had last week with every state and federal agencies responsible for the process was focused on the schedule and meeting those dates. The discussion was how to meet those dates and the commitment of all parties to do that. We are going to work on the milestones and interim dates that we have to achieve and the staffing changes that have to happen. This process can take as long as we make it take collectively. There is nothing in statute or regulation that says it has to take 2 ½ years to clear things. The White House has just announced a number of changes to the process to streamline the federal process. The meeting last week was the beginning to try to take advantage of all of those changes. We are identifying, working through the Governor's Office, what we need to do on the state side in terms of coordination with DGS, Finance and others to put into place the resources to get this done. The White House dashboard locks in those dates as a federal commitment to meet. Mr. Richards asked if the state was tied into the dates that were agreed upon. Mr. McLoughlin replied that the state will be put on the dashboard. Mr. Richards asked when will we see the results of these meetings in a presentation. Mr. Morales replied that nothing is final yet. Resource needs and milestones need to be identified. Updates will be provided on the progress each month. In the next 60 to 90 days the pieces will fall together. Mr. Rossi summarized that there are a set of goals for 3rd party agreements, right of way and environmental. All those come together at some point and drive whether are not we can complete the construction packages. If we plan for a set of numbers with a probability of less than 60%, we are not making those numbers. Mr. Rossi asked, if a series of goals are not met, what are the alternative plans? Mr. Rossi asked to see the alternatives by the first of the year.

Agenda Item – Audits – Paula Rivera

- None.

Agenda Item – CP 1 and 2-3 Project Update

- None.

Agenda Item – Risk Management

- Mr. Rossi asked Mr. Tapping to prepare schedule risk analyses with respect to 1) planned program segment environmental clearances and 2) 3rd Party agreements. Mr. Tapping responded that Authority staff has already begun working on the probabilistic analyses and that they will be complete by January 2016.

-Current Issues

- No current issues.

Meeting adjourned at 9:05 am.