



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES**

**December 8, 2015**

**California Department of Health Care Services Building  
1500 Capitol Avenue  
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on December 8, 2015 at 8:00am 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

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. Paula Rivera, Chief Auditor
- Mr. Alan Glen, Director of Real Property
- Mr. Mark McLoughlin, Director of Environmental Services

Rail Delivery Partner Staff Present:

- Mr. Gary Griggs, Rail Delivery Partner Program Director

Minutes prepared in the order items were presented during the meeting

**Agenda Item – October 2015 Meeting Minutes**

- No comments.

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

- None.

**Agenda Item - Financial Reports**

Questions asked and answered. Issues discussed included:

- **Executive Summary** – Mr. Fong stated that there is a correction on page 3 under the green column, Prior Year Dec-2014. The percentage of Budget Expended Year to Date should be 28.2% not 26.2%. Mr. Richards stated that Mr. Fong said on page 4 the \$1.7B is a placeholder. Mr. Richards asked for the placeholder to be defined. Mr. Fong replied that over the last few months we have been rebaselining our current budget of \$1.7B. This number will change primarily due to the schedule change. Mr. Richards commented that all of the reports are nicely summarized by the Executive Summary.
- **Operations Report** –Mr. Rossi asked for a Right-of Way update. Alan Glen stated that there are an additional 2 handouts: 1) ROW – CP1 Parcels Delivered to Design-Build by Month 2) ROW - CP2-3 Parcels Delivered to Design-Build by Month. These are updated to include the data thru the end of November. Thru the month of November we delivered 48 parcels; 15 parcels in CP1 and 33 parcels in CP2-3. That brings our new total to 376 in CP1 and 123 parcels in CP2-3. Looking forward in the month of December we anticipate 30 parcels to be delivered in CP1, which includes 10 UPRR parcels that have closed escrow, and about 23 parcels in CP2-3. Similar numbers are anticipated in January between the 2 projects. Mr. Rossi asked about the curve on the ROW – CP1 Parcels Delivered to Design-Build by Month. It shows we are at 376 and planned to be at 515. Mr. Rossi asked, as we start to look out if we plan to stay on the early forecast number or if that curve is going to start to trend up again. Mr. Glen replied that the early forecast slope averages about 17 parcels a month between now and June of 2017 and he believes that is achievable. Mr. Glen thinks we will do better in the early months and as opportunities diminish we are not going to keep that pace. Overall it's a realistic goal to achieve the early forecast but if there are any delays we are not going to go below the alternative forecast. He believes that it will be bracketed between the 2 forecasts. Mr. Morales stated that the other aspect of this is it's not just the raw numbers that are important, it's the specific parcels that are being delivered and the coordination between the construction site, ROW and the contractor to make sure that we are delivering the parcels so we get the major work under way. The progress we are seeing on the construction is directly tied to that coordination and the delivery of the parcels. Mr. Rossi asked if the top 7 sites are problematic. Mr. Glen replied over the last few weeks we made very good progress on the 2 that were most problematic. For the Tuolumne Street Overcrossing we have now reached agreement with a relocation that we had to have that will start moving December 14<sup>th</sup> to a temporary site to accommodate the construction schedule. The other is Avenue 12 where we are in negotiation with two property owners that we believe will come together in the next couple weeks and construction should be able to take place near the end of the year or first of January. Those were the last key elements to get the 7 sites out to construction by mid-February. Mr. Richards asked in regards to the alternative forecast reflecting potential delays, if those delays are based on historic performance. What amount of information goes in to determining how to forecast for potential delays and how reliable are the forecasts? Mr. Glen replied that the early forecast is a date that is submitted by the ROW team and the ROW consultants are responsible for delivery of those parcels and is updated on a biweekly basis. The alternative forecast was looking along the process and identifying the areas where we have less control over the delivery aspects and anticipating the kinds of delays that we could have and have seen in the past. That is how we developed the alternative forecast line. Mr. Richards replied that it is more of an in-depth dive into the potential schedule delays rather than a cursory determination of what we think it might be. Mr. Rossi added that he guesses it's too soon to tell how CP2-3 is going to work out. Clearly the early work has paid off well. The plan is still a steep slope. Mr. Glen agreed. We still anticipate a Rebaselining for CP 2-3. The construction oversight team is working with the design builder to finalize the last of the changes in the parcels. We will expect to see a rebaselining over the next month or two and at that time we expect to have a more realistic delivery plan. Then we will establish, as we did in CP1, an alternative forecast which we will bracket where we expect it to come in.

Mr. Rossi asked for an update on Environmental. Mr. McLoughlin stated that we will start with the

schedule. On page 31 there is a milestone schedule of the 5 major milestones. What we have is what is previously reported and what changed. Each section we can go thru what's changed based upon that item. We are holding the final ROD dates to 2017 as we prepare to work with all the permitting agencies - federal and state. We had that meeting in October. We provided the schedules and process to go on the federal dashboard for each one. We worked with the FRA to agree on those schedules. Then we work with the agencies involved in meeting those schedules. The end of January is the target to put those up publicly on the federal dashboard. That becomes public accountability as it relates to each agency's deliverable including our deliverables to them. Mr. Morales added that the dashboard is something that was set up by the administration a few years ago with the goal of accelerating environmental approvals for major infrastructure projects by publishing agreed upon calendars and holding all agencies accountable for meeting them. They are publicly available dates that force collaboration and streamlining of the process. That is the stage we are working with the federal government on getting those dates published and having the Army Corps of Engineers, the EPA, the FRA, the US Fish and Wildlife and the US Forest Service all buy into those dates and they are in the process of identifying along with us what it takes to meet those dates so we can take any steps we have to support those dates. Mr. McLoughlin added that in the last 6 to 8 months we have been revising and amending the interagency agreements that we have with those agencies for staffing to be sufficient to meet the deadlines. Mr. Rossi asked about the segment San Francisco to San Jose. Progress says March 2016, what does that mean? Is that the plan for 100% delivery? Mr. McLoughlin replied yes. Mr. Rossi commented that last month, October we were 40% complete and at this reporting we are at 65%. What is the estimate when we will be at 100% complete? Mr. McLoughlin replied that on page 32 it shows that at the end of December we are targeting to be complete. Mr. McLoughlin noted that another column on the report is needed, and also identified that we have some pending conversations. Mr. Morales is meeting with Caltrain this week to further define the project. In the last 2 weeks we've convened meetings of each project section, which includes planning, engineering, and strategic outreach to ensure public outreach and the technical pieces have a strategy. We are currently, under each section, refining the definition of each section based upon some of the stakeholder issues in addition to the technical part. Mr. McLoughlin wants to make sure that we can define the project so when we move forward in the environmental, whether it's the preferred alternative or the documents, we can move on pace verses stopping and starting. When we start the document we can move forward knowing that there will probably not be changes from the stakeholder perspective. Mr. McLoughlin wants to make sure that we are efficient moving forward. Right now we have been doing it concurrently then things change and we have to move backwards instead of forwards. We are taking the time strategically to really define the project, what it means and the outcome at the end. Mr. Morales added that this is a fundamental part of doing this process more efficiently. Spending that upfront time getting greater clarity on what it is going to take for the full environmental clearance process. It's the difference between taking 68 alignments as we had at the Wye at one point as options thru the environmental process verses taking 2, 3 or 4 alignments thru the process. Mr. McLoughlin added that it is accelerating as we really need that project definition from engineering so it is really pushing engineers to make those decisions so we can move forward with what we actually want to build and operate. That is more focused right now and that is starting to change. Many questions come from that and it forces decision making. Engineers may say they need 3 more months to do X but that may make up 8 months on the back end for us. That is the approach that we have changed in the last month and it is the time to do that. Mr. Rossi commented that after alternative analysis and thru the purpose and need statements we very well may hit our target. Then getting into the initial preferred alternative and go into the draft EIS he has no confidence that we will hit the desired time frame given these numbers. As far as this committee is concerned Mr. Rossi does not believe in these end dates. Mr. Rossi asked if the cost exercise is the same as budget. Mr. Rossi asked if planned is budgeted and asked to put that word in. It's either plan or budget. The spends are for really small periods of time so far. So there is no way to understand. In some cases there are forecasts. How can you get a forecast predicated on the small amount of time that you have to make that decision? Why do some have forecasts and

some don't? Mr. McLoughlin stated that he asked the same question. Mr. Rossi asked who is doing this. Mr. McLoughlin replied that he is getting it from the RDP and KPMG. Mr. Rossi asked Mr. Griggs to explain how these numbers are derived based on the small period of time performed. Mr. Griggs replied that we have regional consultants working on a number of the sections so we are using their budgets so to project how that would be expended out over the course of time. Mr. Rossi asked if they have budgets, why aren't those budgets on here. Mr. Griggs replied that these forecasts are based on their budgets. Mr. Rossi asked why some have forecasts and some don't. Mr. Griggs replied that we don't have regional consultants on all of the sections. Mr. Rossi asked if we have a budget on this project and assuming we have individual budgets for all the things we do, why aren't they on here? Mr. Griggs replied that from his understanding these numbers are from the budgeted numbers we have. Mr. Rossi asked why on page 38 and 39 have forecasts but there is no forecast on the other pages. Mr. Griggs replied that the plan is the budget. The ones that are underway should have forecasts. Mr. McLoughlin added that in the last 2 months the accountability is at the project manager level of the RDP. We are getting resourced the right way for each section. Each section has a project manager that is accountable at that section level, an environmental manager to coordinate and make sure the engineering piece works. Mr. McLoughlin wants that to feed into this report into an accurate way to do scope, schedule and budget. Right now the evolution of those resources are 1) getting into place 2) that accountability is with Mr. Griggs and he knows what is at the project level that comes up into the program. The accountability is with the regional consultant. We need that consistency to manage the scope, schedule and budget. Mr. Rossi stated that he is concerned that you can't understand if the data is good. There needs to be more on the chart on page 31. Mr. Richards stated that it would help if the charts indicated what is incomplete or in the process of being developed. This leaves us with the impression that there is something that you are missing and we have to ask why you're missing it. Mr. Rossi asked on the draft EIS, what is the average amount of time it takes to draft an EIS. Mr. McLoughlin responded it depends on the project size, the complexity of the segment and the different problems encountered. Mr. Rossi asked what is the fastest time one can get done. Mr. McLoughlin replied the average time in California is 24 to 48 months. The level of these documents had not been seen before in the state of California, and they were prepared with a different purpose which was to withstand lawsuits. From October 1<sup>st</sup> meeting if we have the stakeholder and agencies buying in at the state and federal level in full cooperation it gives us that leg up with them in the process with us. In the next 3 months we should know based on agency conversations. Mr. Rossi stated that the average the time to get one of these done becomes problematic without doing these other things. We want to know if that is happening. Mr. Richards expects the dates to change as more information is known, and wants the reports to identify achievable dates.

Mr. Rossi stated that he expects a third party agreement update in the first quarter of next year.

#### **Agenda Item – Audits**

- None.

#### **Agenda Item – CP 1 & 2-3 and SR-99 Project Update**

- None.

#### **Agenda Items - Current Issues**

- Mr. Rossi asked Mr. Griggs for details on the LA Times article. Mr. Griggs replied we have seen the article. There appears to be some confusion about the intent of the document that was the basis of the article. The document was a draft internal working version of a PowerPoint presentation prepared as part of the evaluation of the 2014 Business Plan cost estimate. As the reporter notes, it was not the final estimate used for the 2014 Business Plan. For any cost estimate, especially at the early stages of project development, we must consider a range of scenarios in assessing costs. This involves such things as considering different alignment options, as well as, design and construction approaches. The higher

estimate of the Initial Operating Segment (IOS) to which the reporter referred actually used a different IOS project length, as consideration was being given to extending the IOS approximately 16 miles further south to Burbank. At the time the 2014 Business Plan was completed, no final decision had been made regarding an IOS extension and the original 2012 Business Plan terminus was maintained. This was a primary reason for the difference between the 2012 IOS estimate and the 2014 IOS working estimate. The reporter correctly notes that the 2012 Business Plan overall project cost estimate and the 2014 Business Plan draft working cost estimate for the scenario being considered were within five percent of each other. This is well within the precision of any such estimate rendering the two estimates essentially the same. Based on this and the fact that there was not a lot of new project information available since the 2012 Business Plan, the 2012 estimate was carried forward to the 2014 Business Plan with minor adjustments for inflation and actual construction activity in the Central Valley. Mr. Rossi added that it was a working document. Everyone had a shot of looking at what the document explained and how it was constructed and what was manifested as a result of that data set given the fact that it was basically about a series of things that did not occur from the perspective of making a decision to go forward on. Any project of this size or any project that has a timeframe that goes beyond 6 months there are lots of documents and things that are talked about with decisions going the other way. Mr. Griggs added that we go out of our way to mark these documents as draft. Mr. Morales added that when you are talking about a forecast that is going out 10 to 15 years there are many assumptions some can be engineering, some are environmental and some are commercial. There is not a right or wrong answer with those assumptions; it's a question of finding the right balances of what we determine are the appropriate assumptions to use. The biggest single piece reported as an increase in cost was a shift in cost from the phase 1 system into the IOS. In this case the reporter did not share with us what he was looking at and did give us the chance to provide that explanation. Unfortunately this story went out the way it did and created a fundamentally wrong impression. Mr. Rossi suggested as we go forward that given the scrutiny, we document the meeting of what occurred so we don't have to have these discussions. People on good projects are constantly questioning whether they have the right assumptions. This was an attempt by the LA Times to find a story that did not exist. Mr. Richards added that the information that the story was reported on was a draft that was subject to additional refinement like every project.

Mr. Rossi asked Mr. Tapping for an update on the contingency of CP 1. Mr. Tapping replied under this Finance & Audit Committee's oversight, the California High-Speed Rail Authority has implemented a Risk Management Program that uses state-of-the-practice risk management tools and analyses (such as Monte Carlo simulations) in order to flag early warning signs associated with potential cost and schedule risk. These analyses are used to facilitate and drive prudent and timely risk response actions before program cost and schedule has the potential to be impacted. The updated Construction Package (CP) 1 cost risk analyses performed by the Authority's Risk Management Program indicates a negative trend with respect to three of the costs risks originally identified in the CP1 contract contingency analysis. These particular cost risks relate to intrusion protection and other requirements requested by the adjacent railroads (UP and BNSF) and ROW acquisition. The updated cost risk analysis indicates that there is the potential of exceeding the current contingency envelope for the CP1 contract if risk mitigation actions are not undertaken. The Authority's Risk Management Program is working in concert with Program Delivery and the Rail Delivery Partner (RDP) to identify and implement risk mitigation strategies and potential savings. Mitigation involves such strategies as considering alternative design and construction approaches not only on CP1 but program-wide as well. Mitigation alternatives and cost analyses are ongoing and will be addressed in the draft 2016 Business Plan, currently under development. Mr. Rossi asked if we will get the specifics during the next quarter. Mr. Tapping replied yes. Mr. Rossi added that the program is working the way it supposed to. We put in an early warning system that is showing indications that there is some stress here. This is being addressed as appropriate.

**Meeting adjourned at 8:50 am.**