

DRAFT

FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES December 13, 2016

Department of Health Care Services Conference Room 72.167 1500 Capitol Avenue Sacramento, CA 95814

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on December 13, 2016 at 8:30 am.

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. Alan Glen, Director of Real Property

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 – October 2016 Meeting Minutes

• No comments.

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

• None

Current Issues -

• None

Agenda Item - Financial Reports -

Questions asked and answered on agenda items discussed included:

Agenda Item: Executive Summary -

• Mr. Rossi requested that Mr. Fong begin the discussion with the Executive Summary. Mr. Fong highlighted a few things for the Committee. First, regarding Accounts Payable there are two items he wanted to call out. There has been a bit of a learning curve. High Speed Rail is on the FI\$Cal system and the State Controller's Office is not. We've learned that as we process through FI\$Cal there are a couple of extra steps we must take to ensure invoices get paid on time. Unfortunately, there are two (aged invoices) this month, but the process has been fixed and the issue will not occur again. Mr. Richards asked if there had been a change in the process this month. Mr. Fong replied that the way we input into FI\$Cal has changed; usually a notice from SCO is received if the State Controller's Office has a question. We did not receive those questions this month because we are on two different systems.

Mr. Fong also pointed out that Cap and Trade's November auction proceeds were around \$91M. In FY2015-16 the Authority received \$457M even though two quarters were around \$2M. Finally, Mr. Fong pointed out the ARRA spend. The ARRA grant is \$2.553B and as of Nov 29, the Authority has spent \$2.08B, or about 81%. That leaves about \$477M, or an average of about \$68M a month for seven months. The Authority's current burn rate is about \$105M so we're on target to spend our ARRA funds. Mr. Rossi said it's amazing how much the Authority has caught up. If you looked at the probabilities earlier in the grant period it did not look favorable. This is a very nice recovery, so congratulations to all.

Finally, Mr. Fong discussed the Projects and Initiatives report. As reported last month, there are four projects in the red, which are Cost Management, Schedule Management, Contract Management and the Enterprise Document Management System. Those are being monitored closely and mitigation is underway. Mr. Rossi asked what was causing the delay. Mr. Griggs replied that the Authority is experiencing the usual challenges of implementing high tech systems, as well as challenges moving data from the previous systems into the new systems. Mr. Griggs stated that the Authority is seeing some good progress in December, including purchasing and standing up the Amazon Web Service cloud account, which will be the primary storage for HSR information. Maximo, the asset management program is also up and running. The schedule management system, P6 - Project Management Information System is also going live this month, and a risk management system (Microsoft .Net) is live as well. The December dates shown in the Report are going to hold. Mr. Griggs stated the Authority continues to be challenged in a few areas including EDMS (Electronic Document Management System), where there are still governance and security issues to work through. Mr. Richards asked Mr. Griggs to explain what's involved in governance issues and why the Authority is experiencing them so late in the process. Mr. Griggs replied it involves establishing policies and procedures, as well as how document management tracking is handled. We are basing it on the standard system, SharePoint, but are converting from an older system – 2010 SharePoint – to a 2013 SharePoint with higher level security so different individuals have the correct data access. The Authority, as well as the State to some extent, studied the need to heighten security controls and we are seeing good progress there. Mr. Richards asked when that will be completed. Mr. Griggs replied that completion is scheduled for March 20.

Agenda Item - California Build High-Speed Rail Operations Report – Items discussed:

ROW - CP1ABC Parcels Delivered to DB by Month

Mr. Rossi said ROW looks pretty good. Mr. Glen replied that as indicated in the Ops Report, October was a good month and the Authority will continue to focus on critical parcel delivery in order to get

construction moving. In November we also delivered 42 parcels, 6 of which are critical parcels. We've continued to have good progress with a significant uptick the last couple of months attributed to ED (eminent domain) possessions. In fact, in November, 29 of the 42 parcels delivered were through ED. Mr. Richards asked if that pace would hold. Mr. Glen answered yes, December started slow but we have a queue in delivery phase so December will come in at around forty parcels as well. Looking ahead, by the end of January the Authority will have acquired around a thousand parcels. Considering that twenty months ago we had less than one hundred, that is a significant accomplishment.

ROW - CP2-3 Parcels Delivered to DB by Month

Mr. Glen pointed out that the Authority has delivered 53% of all parcels including large segments of critical parcels needed to go to construction. Some of the challenge on CP2-3 are related to design changes that have caused us to delay the delivery. As you recall, the plan was established two and a half years ago and has never been rebaselined. Mr. Richards asked Mr. Glen to describe the design changes that have caused delays. Mr. Glen replied that in the center section there are a couple of ATC's (Alternative Technical Concepts) still in play and the contractor is still trying to decide which of those ATC's is moving forward. Mr. Griggs clarified that in some cases the proposed ATC's have changed the footprint and so has required additional Right of Way. Mr. Morales said that per the contract, the Authority has 12 additional months from the time changes are identified, and that's not reflected in the schedule. Mr. Glen said that this blue plan line does not reflect those changes. Mr. Richards asked if there was any concern from a scheduling perspective. Mr. Morales said we are always concerned about that, although the picture is better than what's shown on the graph. Mr. Glen said eventually we would like to rebaseline the plan, but we're still working out the details with the contractor in order to come to a collaborative agreement. That will shift some things around and improve the outlook, but will not eliminate the delay. Mr. Rossi asked when the new baseline will be completed. Mr. Glen replied that the Authority may propose something unilaterally if we can't get their concurrence with the rebaseline. Then we'll show both plans on the graph so we can show what we believe is the true picture. Mr. Griggs said the CP1 contractor has been very flexible in moving work around consistent with where we can free right of way. The CP2-3 contractor remains tighter to their original plan. Mr. Richards said that the lack of flexibility is really a concern. answered that the Authority was meeting with them the next day to look at priority construction areas that can be lined up with Right of Way acquisitions. Mr. Rossi asked if that meeting would be Mr. Griggs replied yes because the Authority intentionally selected Design-Build procurement to have that flexibility. Mr. Richards asked how it would affect completion of 2-3 if the meeting was unsuccessful. Mr. Griggs replied that is being assessed now so we don't yet have an answer, but that it would obviously affect the schedule and we'll have a better idea next month. Mr. Morales stated that the concern from the contractor has been less on the backend schedule but related to mobilizing and not wanting to mobilize and then have to stop, and that so far they have not indicated any significant concerns about the back end schedule, that construction is really just getting started. We're quantifying the possible impact, but it still feels manageable. Mr. Griggs added that one positive to their slow start was small costs up front as they concentrate on completing design. Jarvis added that the backend schedule really depends on the progress of the work in the next six months or so. Mr. Morales said their schedule had always shown a slow ramp up, it's been the Authority that's been more anxious to start work. The next few months will be telling and by spring we should see significant work.

ROW - CP4 Parcels Delivered to DB by Month

Mr. Glen said CP4 is also getting a slow start due to a significant change required to minimize the impacts to a couple of large water tanks. That required about sixty miles of realignment. In some cases the parcel has only shifted a few feet but that has caused some delay. Mr. Richards asked if

there were challenges to ROW in any areas previously used for oil production or shale production. Mr. Glen replied no, a couple entities approached us about evaluating that situation but we haven't gotten very far. Mr. Richards said he's concerned about the time and cost implications. Mr. Griggs stated there have also been some alternative technical concepts that have triggered changes which are not reflected in the blue plan line on the graph.

Mr. Rossi asked about (the graph on) page 35. Mr. Glen said he thought the yellow line was mis-graphed against the left scale rather than the right scale. Mr. Griggs said he also thought that was an error. Mr. Glen replied that it will be corrected.

Project Development Metrics

Mr. Rossi asked about the status of (the Environmental Milestones Schedule on) page 44. Griggs replied that with only a year from the Dec-17 deadlines the Authority is doing a very hard evaluation of the forward schedule, which includes the FRA and their environmental team and reviewing process improvements. We're also looking at resources available from the cooperating agencies and the FRA to support the reviews we need. We'll be coming forward with some updates to our schedules very soon. Mr. Morales said the Authority is jointly updating the schedules with the FRA and we'll be completed in January. Mr. Richards asked that the Committee be informed in advance of the February meeting if something alarming is found. Mr. Griggs agreed and acknowledged that the FRA has been working very closely with the Authority, and bringing some additional resources. Mr. Rossi asked if there were rescheduling issues that could impact the schedule. Mr. Morales replied that they are assessing the impacts with a focus on making sure the V to V schedule is not impacted. To the extent the environmental schedule moves, the Authority is also looking at how the overall program schedule can be retained. There are things we can do in the procurement process, for instance, starting the Design-Build procurement before finalizing the environmental and then tying the two together for a complete picture. Mr. Rossi agreed the focus should be on what can be accomplished in a timely fashion.

Mr. McLoughlin pointed out that on page 44 we have another green line now, a small milestone for environmental clearance to ensure electrification for the valley and the test track.

Third Party Agreements

Mr. Rossi said that the report was good. Mr. Engstrom replied yes, we are tracking. Mr. Richards also said it was a good report.

Contract Management

Mr. Jarvis stated that the Contract Management reports showed generally good performance. Looking ahead several years on CP1 we see some cost pressures that we're looking to manage and mitigate. Mr. Rossi asked Mr. Jarvis to elaborate. Mr. Jarvis replied there are several areas. One is commitments that have been made through negotiations with the railroads and third parties that affect the scope of work of the design-build contracts. The second is continuing right of way delays – we've gotten a lot better in acquiring ROW but we still have had some ROW delays. Finally, the bidding costs of PG&E and AT&T relocations have been coming in higher than anticipated. That work is bid out through individual task orders and there's not a large market bidding on that work right now. Mr. Richards asked how much? Mr. Jarvis replied that there's an estimated \$50-\$70M overage, but that amount could change as a lot depends on how the bidding goes in the future. The Authority is required to use PG&E-approved vendors, which are the vendors that bid on the work, so we're working with PG&E to see if we can open that up to other vendors to get more competition. If we can do that we expect those costs to go down. Mr. Richards asked how budgets would be impacted if that doesn't happen. Mr. Jarvis answered it would certainly make the contingency very tight. Mr.

Morales said we're going through a cost to complete analysis now and will know more at the end of this month. Mr. Jarvis said we're still early in the project so we still have opportunities to head off some of those higher costs. I'll give you an example: We're going to be dealing with PG&E not just on CP1, 2-3 and 4 but throughout the entire segment. We'll go back to see if we can negotiate a broader approach to get a better cost situation because, as Mr. Jarvis said, we're restricted to using their contractors. If you get only one bid it creates a problem and we need more flexibility.

Mr. Richards asked about the status of the BNSF contract. Mr. Fellenz replied he expected it to be signed this week. Mr. Morales added that the outstanding item causing the delay was a letter from the FRA. That letter was just received so we expect this to be wrapped up Thursday. Mr. Tapping added that risk management is performing a risk overlay of the cost to complete exercise that will be part of the assessment and reporting as going forward. As Mr. Jarvis mentioned, the primary risk drivers were identified fairly early in the contract and allowed for in the contingency. We're still seeing some pressures there, but Mr. Griggs and Mr. Jarvis stated that some mitigations were being taken. So we'll have full reporting of the cost and potential risks. Mr. Richards asked if it will be completed for the February meeting and Mr. Tapping replied yes.

Mr. Rossi asked when the planned value schedules on pages 76 and 80 will be completed. Mr. Jarvis replied both schedules have been approved and will be reflected in the next report.

Finance/Budget

Mr. Rossi said the Finance and Budget section looks good so he had no questions. With regard to the ARRA schedule, Mr. Fong, nice work. In fact, the average of \$68M (spend per month) needed is significantly lower than before but we can't just assume we'll achieve those averages. Mr. Griggs replied that we're actually trying to have (the ARRA funds) pretty well spent by the end of April. Mr. Morales added that we've been tracking it monthly, hitting and in most cases slightly exceeding our monthly targets each month but if you have prolonged rain, if you have an incident on the site, anything can interrupt that.

Mr. Tapping stated that Risk Management's current primary focus is on the cost and risk overlay and assessment for CP1 and CP2-3, being performed in conjunction with Project Delivery's ongoing cost to complete estimates. Risk Management is also embarking on a Valley to Valley cost and schedule risk analysis that will drive procurement strategy and risk allocation decisions on those projects. Mr. Rossi asked if Mr. Tapping had any other concerns. Mr. Tapping stated that the primary program risk drivers have been discussed by Mr. Jarvis and Risk Management continues to work in concert with Program Delivery staff on risk response and mitigation strategies.

Mr. Rossi asked if Mr. Fellenz had anything to share. Mr. Fellenz replied no. Mr. Rossi said moving on to Audit, this report seems exactly as it should be. Do you have anything, Ms. Rivera, in addition to our discussion? Ms. Rivera responded no, not right now. Mr. Rossi said we have the standard reports and again, I know there will come a time when we'll go through these reports but it's still early in the game and there's no change from previous meetings. It's really nice to see how well everything is going and I thank you all very much.

There were no further discussions and meeting adjourned at 9:15 am.