



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES  
March 15, 2017**

**Department of Healthcare Services  
Conference Room 72.165  
1500 Capitol Avenue  
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on March 15, 2017 at 8:30am**

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

Rail Delivery Partner Staff Present:

- Mr. Gary Griggs, Program Director
- Ms. Gay Knipper, Director of Operations

Minutes prepared in the order items were presented during the meeting.

**Agenda Item: February 14, 2017 Meeting Minutes**

- No comments.

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

- None.

## **Agenda Item: Financial Reports**

### **Executive Summary**

Mr. Rossi opened the meeting stating that he had four items that he would like to talk about after Mr. Fong does his update.

### **Financial Reports**

Mr. Fong started with an Aging Report update. Mr. Fong stated he was happy to report that we have zero penalties this month. Looking at the Cash Management Report, we have \$899M in Cap and Trade and \$83M in Prop 1A today.

Mr. Fong gave an update on the bond process. We had our Funding D plan approved, so this week we are working with the State Treasurer's Office looking at our project costs and determining what is eligible for tax exempt bonds and what is not. The first week of April, we should have our bonds rated and preliminary official statement published. The week of April 7, we will have our bond sales occur and our investor outreach occurring at the same time. Mr. Richards asked for more detail on what is tax exempt and not exempt? Mr. Fong replied that it is cheaper for the state to sell tax exempt bonds but only certain things qualify for that. We are thoroughly going through that this week and should have some resolution. Mr. Richards said that he would like to see what they come up with as he was not aware that we had both tax exempt and non-tax exempt with the state. Mr. Fong replied yes and that he would definitely pass that along.

Mr. Fong moved onto the Administrative budget. At 58% of the year completed, we have spent \$44M. Last year we were at \$40M, so that is pretty consistent. We are happy to report that our vacancy rate for this month is 13.7%. Last month it was 15.7%. To put that in context, the statewide average, back in December 2016 was 13.3% so we are right on target. Mr. Fong would like to call out that Pam Mizukami and Jeannie Jones from DMV have helped us out on admin the last few months and gave them a lot of credit for helping us. Mr. Rossi and Mr. Richards thanked them.

Mr. Fong moved onto the Capital Outlay budget. We are at 58% of the year, and have spent 40.5% of our \$1.7B budget. That is about where we should be. Unfortunately, I do want to point out for the record, a correction that I found last night. The bottom line is that a few months ago, we aligned our Cap Outlay Report to our 2016 Business Plan. In doing that, there were two items that we did not adjust the budget for, so the forecast was actually higher than our budget. We looked into it and realized that there was \$24M. Mr. Rossi asked if that was on page 10? Mr. Fong stated that it impacts pages 5 of 13 of the Capital Outlay report. It also impacts page 10 of 13 and 12 of 13. If you look at Third-Party Construction Work, we should have increased the \$47M budget by \$24M and we should have correspondingly reduced the real property acquisition budget by the same \$24M and that would have balanced out, which will match our forecast. It was a mathematical error/ adjustment and this will be corrected on our next report. Mr. Rossi replied ok.

Mr. Fong moved onto Total Project Expenditures. Our ARRA spend, as of March 7 is \$2.353B, which is 92% of our ARRA spend. The total grant is \$2.55B. We have \$200M leftover, or 7.8%. We will need a burn rate per month of \$53M. If you look at our three month average, it is \$71M. If you go back six months, it is an \$88M average so it looks like we are on target. Mr. Richards asked if January results were the result of rain? Mr. Fong replied yes there was rain and said Mr. Jarvis might be able to answer. Mr. Jarvis replied rain was a factor, and that there is also \$39M that we have not gotten reimbursed through FRA yet. We are working through that as they have some questions on our

construction billings. Once that gets reimbursed, that would be added in as well. Mr. Rossi asked Mr. Tapping, as we stand today, from a probability point of view, will we spend the full amount? Mr. Tapping replied yes, he is confident. Mr. Rossi stated that there are a lot of people who thought we would not spend it all. Mr. Griggs commented that we had a real strong February too. Rossi noted that it is amazing how these things just roll along.

Mr. Fong moved onto Project and Initiatives. There are nineteen new projects that are tied to Work Plan 2B, with a budget of \$63M for Work Plan 2 extension. There were thirty tasks that we extended, but the budget does remain the same at \$3.8M. With that, the themes of the nineteen are IT and program support. Mr. Richards asked if the add-ons were because of CP2-3? Mr. Fong replied that the thirty from Work Plan 2, we just extended the time but not the budget. Mr. Richards replied ok. Mr. Fong stated that work from Work Plan 2B actually has new tasks budgeted and that is budgeted at \$63M.

### **Agenda Item: California High-Speed Rail Operations Report**

Mr. Rossi commented he continues to be concerned about IT and asked if they were prepared to give an update on IT at this stage. Mr. Griggs stated that the Project and Initiatives Report is probably the best document to refer to.

Mr. Griggs referred to the last page to point out, which shows the items that have been completed. We are seeing some good success with Amazon Web Services (AWS), which is complete. The Maximo - Asset Management System is up and running. The P6, PMIS - Schedule Management System is complete. I would point out one thing in the way we are tracking here. You will notice there is a red item, triangle in timeline reading, under timeline rating, showing over timeline but actually, if you will see, we came in ahead of schedule so we have an interesting way of reporting here. After our schedule date, it still shows up as a red triangle so we might want to look at another way of reporting that. Mr. Rossi asked for clarification. Mr. Griggs stated that we generally want to show if we have been delayed and are behind schedule, in terms of delivering the product and we would want to highlight that as a problem. In this case, we actually were able complete that ahead of what our forecast schedule was. We completed on December 10, 2016 rather than January 9, 2017 but it still shows not on the original schedule/date. I just want to point that out in this case it was ahead of schedule. Mr. Rossi asked why is it showing as red? Mr. Griggs stated it seems to be the way the reporting system is set up and we will get it fixed. Mr. Fong commented that this was for last month and it was status red but during that time you completed it within the thirty days. This will show as complete next time. Mr. Rossi stated that it is not the reporting system and the report is correct. Mr. Griggs agreed.

Mr. Griggs moved onto the PMIS – Risk Management System, and noted that it has been completed. Mr. Rossi asked what does system was put into production on 12/9/16 after AWS environment went live mean? Is it fully operational? Does it have full sets of data? Does it have all the historical information? Does it communicate with all the other systems? Who is using this system? Mr. Griggs replied that right now it is the Risk Management Group who is using it. Mr. Rossi asked Mr. Tapping if all the things I just asked, are they true? Mr. Tapping replied that not all of the items are true. Rossi said I'm not going to do this again, I am done now. Mr. Rossi commented that if it is not fully operational it is not complete. If it is not fully operational under IT schematics, it is not complete. Not only does it have to be fully operational, it has to be tested on a beta basis. Mr. Tapping stated that is has been tested. Mr. Rossi asked how it can be tested if it is not fully operational. You only test totally after it is fully operational. You can test at the beginning of the process but after you make if fully operational, you have to test it again, in order to say it is fully operational. This has not been done, has it? Mr. Tapping replied no, not after. Mr. Rossi said that he was still concerned. Mr. Griggs stated he would highlight that project.

These systems as you know will continue to test, be set up, and running. They will continue to be active and additional information brought in over the whole course of the program so we just have to decide at what point do we want to say that is actually up and running. Mr. Rossi stated that there is a clear set of principles, clearly defined, all across this country, on when something is operational. Which means, it is up and running, been tested, it is acceptable to the end-user and it is working the way it is supposed to. Mr. Griggs agreed.

Mr. Griggs moved onto page 5 to give an updated on the remaining seven of the IT products we are working on. He also recognized Marcie Kahbody and Patty Nisonger who have been helping from Agency on this, as well, coming in as Acting CIO. We are continuing to work on geoAmps. We moved out of Phase 1 to Phase 2 and are scheduled to have that fully operational by December 31, 2017. Budget rating is ok and keeping an eye on the timeline to make sure that it hasn't been delayed, so obviously we are keeping an eye on making sure we can get this Phase 2 implemented on schedule. I think we are making good progress with that in terms of the ROW.

Mr. Glen commented we are meeting with the vendor next week to roll out the modules for the subject matter experts to begin to get some dialogue to refine the modules. We will have a whole system ready for beta testing in August and we are going to run it in parallel for four months and then fully launched by the end of the year. Mr. Rossi stated what Mr. Glen just said is what is fully operational. Mr. Griggs agreed. Mr. Rossi stated that so far he has not heard anything is fully operational.

Mr. Griggs moved onto EMMA 2.0. That was the upgrade to our current environmental monitoring and mitigation of program. We are migrating data into that and we are close to getting that up and running. In the latest report I got, about 85% of data for that system has been migrated into it. Mr. McLoughlin commented that the beta testing is done. Mr. Rossi asked that once it is deployed, how long will you run in parallel? Mr. McLoughlin replied that it should take about sixty days in parallel until they are using it regularly so that the users and the contractor level and train. Mr. Rossi asked if you will continue using EMMA 1 for another sixty days after to be sure? Mr. McLoughlin replied yes and to make sure the users can interface and data is uploaded. Mr. Griggs commented that the initial feedback we are getting is this is being very well received. It is far more user friendly than EMMA 1. Mr. McLoughlin commented that this is a GIS database.

Mr. Griggs moved onto PMIS – Cost Management System, Ecosys. We have the software in place but are in the process of going through the data analysis, historical data mining to bring that into the system, so that we can be up and running. We are working very closely with Mr. Fong's group in FINO to get that done. Mr. Richards asked how far along are you on that? Mr. Griggs replied that we are fairly far along and are trying to look over the last nine years of data. Mr. Richards asked if that is how far back you are going? Mr. Griggs replied yes and that always takes a lot of time and a lot of analysis to just go through and to try to bring that into the system so that going forward we have really consistent reports in the future and they line up with the past. We are still scheduled for August 18, 2017. Mr. Rossi commented that he didn't imagine the records were very clean.

Mr. Griggs moved onto the Contract Management System. We are currently using PCM on our big contracts which has been in place for quite a long time but we are implementing a Sharepoint solution for covering all the contracts. We are working very closely with Ms. Nisonger on that one. I know that there has been a Steering Committee looking at this and the users and other things we want to review to make sure we are on track with that. We are seeing a couple of months delay in that in light of going through the Steering Committee analysis. Ms. Nisonger commented that requirements as well as solution justification are out to some key stakeholders for review. We are going to schedule a Steering Committee meeting early next week for decisions on scope as well as solution and

requirements. Mr. Rossi asked if the timing still looked good to Ms. Nisonger? Ms. Nisonger stated that it is very aggressive. Mr. Rossi asked Mr. Fong to note that.

Mr. Griggs moved onto the Enterprise Document Management System - EDMS. Here we are basically upgrading from Sharepoint 2010 and we want to bring that up to Sharepoint 2016, which is the more recent, better application. The user acceptance testing has been done but we are working with Ms. Mizukami on user training. We are going to take more time to go through the training process to get that fully implemented.

Mr. Griggs moved onto the Administrative Records System, kCura. This is the system for maintaining administrative records. This one looks to be on track for completion by the end of this month.

Mr. Griggs moved onto the PMIS Business Intelligence Center, which is still on hold. Mr. Rossi asked why is it on hold? Ms. Nisonger commented that the systems where it is getting its data from are not up yet. Mr. Rossi asked if this was the receptacle for all that data that has come from all those other places? Ms. Nisonger replied yes. It would be the place that you pull data from the centralized data repository or data reporting.

Mr. Rossi stated that we talk about these as if they are silos. These should be a part of an integrated system and we have not seen an integrated system plan. I assume that because it isn't here, these are being done in a way that is reflective of that, if it is not, I need to know that. If there is an integrated plan and we are operating under an integrated plan, someone referred to that other day as a road map, I would like to see that. Mr. Griggs commented that he would get that to Mr. Rossi. Mr. Rossi said he would like to see whether or not these things are being done per that plan.

#### **Items discussed:**

#### **Right-of-Way (ROW)**

Mr. Rossi commented that he would like to talk about ROW quickly. Mr. Rossi stated that things looked pretty good and asked if there was anything there that we should be worried about. If there is, I can't find it. Mr. Glen stated that for the reporting period of January, we continue to have good progress. Mr. Rossi commented that it was very good progress. Mr. Glen commented that looking ahead, we did have a little bit of a slowdown in February, part of that is a little bit of a slowdown by OP (Orders of Possession). I have asked Caltrains' legal to investigate that delay and see if we can regenerate it. We did deliver 26 parcels in February with only four delivered by OP. As compared to December/January, we had 50 to 60 percent of the parcels delivered by OP, so we will definitely need to generate that change.

Mr. Glen stated, as I reported in January, we continue to have difficulty in getting the CP2-3 design-builder to acknowledge the schedule changes. Mr. Glen passed out a proposed revised CP2-3 Parcels Delivered to Design-Build by Month (Planned vs. Actual vs. Forecast) handout. The Ops Report currently shows a blue line, which is a hybrid of the original acquisition plan attached to the contract, as well as an extension for any added parcels. We would like to go back to what we were doing with CP1, where the green line will represent the contractual acquisition plan and that would remain static over time. The new, pink line that has been established is based on contractual delivery dates, parcel by parcel, reflecting the design changes in the contract. The delta between the two reflects the magnitude of the potential ROW delay as compared to the acquisition plan, which really is not an appropriate measure. It would remain pink as long as the design-builder has not reviewed and concurred with the data. Mr. Richards asked what the problem was with the contractor? Mr. Glen

replied that we have submitted it to them and they are not acknowledging the date changes in the contract at this point. Mr. Morales commented that under the contract if a parcel is modified or added because of design changes, ATC starts the clock all over and adds twelve months. Their schedules don't reflect that, they are showing delays, as if we were on the original schedule, in fact, we have significant parcels in CP2-3 because of the ATCs that re-triggers that twelve months which is what Mr. Glen is showing here. We are meeting with them next week to lock this down. Mr. Richards said ok. Mr. Glen stated that he has submitted the entire data set to them for review and consideration so we are hopeful they will concur with these dates. There might be a little tweaking here and there to reflect an agreed upon re-baselining. Once we get there, we would change to a blue line to be consistent with what we have done with CP1. Mr. Richards asked that an email be send after meeting to let them know what happened. Mr. Glen agreed.

Mr. Rossi asked Mr. Jarvis his thoughts as Project Manager. Mr. Jarvis replied that there are delays to ROW acquisition that Mr. Glen has pointed out here. I think they are not as significant as the contractor is claiming that they are. To be clear, these design changes that Mr. Glen is referring to are contractor initiated design changes not Authority design changes, which moves the pink line up but there are also contractor concurrent delays that are occurring. They are not ready to start construction at any of the locations. Their critical path is getting ready to approve for construction plans and they don't have that. I think we are in for a pretty long process to work with them and try to reach an ultimate resolution on this. I do believe the state has a fairly strong position. We have delayed the contractor but not nearly to the extent that the contractor claims. Mr. Richard asked how do we bring this to a head, is this part of your meeting next week? Mr. Morales and Mr. Jarvis both replied yes.

Mr. Morales noted that the fundamental issue is that they have set a very different approach to CP1 than CP2-3. For CP1, the contractor was very flexible and mobilized as we delivered sets of ROW in order to get work going. For CP2-3, they have been holding off deploying any significant construction until they know they can keep going. They don't want the potential risk of a stop. It is understandable to a degree but we think we are at a point that with over 50% of the parcels in place that should not be an issue any longer and becomes less of an issue with every passing week. We are meeting with them on the ROW schedule and probably more importantly on their plans for getting to work in the next month or two. Mr. Glen commented to just be aware that we were actually at 56% delivery a couple of weeks ago and then we added 70 new parcels so now we are back at 50% delivery. Mr. Richards asked if the new parcels are the result of the design changes generated by the design-build contractor? Mr. Glen replied correct.

Mr. Rossi moved onto Environmental. Mr. McLoughlin stated last month that the schedules were rebaselined for LGA, the Wye, and San Jose to Merced. There are still discussions ongoing that Mr. Griggs is having with FRA, and that they are here today to work on solidifying those dates. Mr. Griggs echoed that and would like to recognize Jamie, Matt, and Stephanie from FRA, who are here and thank them again for the way they are working with us on these schedules and other aspects of the program. We do have an aggressive approach to it and they're supporting us big time to see that we can accomplish that. Mr. Rossi and Mr. Richards thanked them for their help and for being here.

Mr. Rossi moved onto Risk. Mr. Tapping stated that all he had to add was we are currently updating our contingency analysis to a risk informed estimate to complete exercise and will be completed in April for both CP1 and CP2-3. Mr. Richards asked it if was too early to have a sense of the outcome? Mr. Tapping replied yes, at this point. Mr. Rossi asked if there was any indication? Mr. Tapping stated there are pressures on both contracts. Mr. Rossi stated that we need to take a hard look at a cost to complete and then a probability analysis. Mr. Tapping agreed. Mr. Rossi stated that if those pressures result in something we need to deal with we need to have a series of mitigating plans. One of the things I want to see, as you look at the 2016 plan, there are a series of things there on a revenue

side that have slowed down because of Cap and Trade so I want to see a presentation of priorities, as we move through V to V, of things we can eliminate or restructure or postpone in order to stay within our numbers.

**There were no further discussions and meeting adjourned at 9:00 am.**