

CALIFORNIA HIGH-SPEED RAIL AUTHORITY

MONTHLY MEETING

TRANSCRIPT OF PROCEEDINGS

DEPARTMENT OF HEALTH CARE SERVICES AUDITORIUM

1500 CAPITOL AVENUE

SACRAMENTO, CA 95814

TUESDAY, OCTOBER 6, 2015

10:00 A.M.

Reported by: Kent Odell

APPEARANCESBOARD MEMBERS

Dan Richard, Chairman

Tom Richards, Vice Chair

Thea Selby, Vice Chair

Lynn Schenk

Lou Correa

Daniel Curtin

Michael Rossi

STAFF

Jeff Morales, Chief Executive Officer

Janice Neibel, Secretary

Russell G. Fong

Paula Rivera

Scott Jarvis

Jon Tapping

Diana Gomez

Melissa DuMond

Margaret Cederoth

APPEARANCES (CONT.)ALSO PRESENT

Lee Ann Eager, Fresno Economic Development Corporation

Robert Allen

Keith Dunn, Association for California High Speed Trains

Randall Winston, Strategic Growth Council

Eric Eidlin, Federal Transit Administration

Suzanne Hague, Strategic Growth Council

Kate White, CalSTA

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P R O C E E D I N G S

10:01 a.m.

BOARD PROCEEDINGS BEGIN AT 10:01 A.M.

SACRAMENTO, CALIFORNIA, TUESDAY, OCTOBER 6, 2015

VICE CHAIR RICHARDS: Welcome to the September meeting (sic) of California High Speed Rail Authority.

UNIDENTIFIED MALE: October.

VICE CHAIR RICHARDS: Oh, this is October?

(Board colloquy and laughter)

Okay. Now, we're just wondering if everyone was listening. Thank you, everyone is awake up here.

Secretary, would you call the roll, please?

MS. NEIBEL: Director Schenk?

BOARD MEMBER SCHENK: Here.

MS. NEIBEL: Vice Chair Richards?

VICE CHAIR RICHARDS: Here.

MS. NEIBEL: Director Rossi?

BOARD MEMBER ROSSI: Here.

MS. NEIBEL: Vice Chair Selby?

VICE CHAIR SELBY: Here.

MS. NEIBEL: Director Correa?

BOARD MEMBER CORREA: Here.

MS. NEIBEL: Director Curtin?

BOARD MEMBER CURTIN: Here.

MS. NEIBEL: And Chairperson Richard?

1           VICE CHAIR RICHARDS: Chairman Richard will be in  
2 shortly.

3           If we could now we'll start with the Pledge of  
4 Allegiance, Vice Chair Thea?

5           VICE CHAIR SELBY: Sure.

6           (The Pledge of Allegiance is made.)

7           VICE CHAIR RICHARDS: We will start this morning  
8 with public comment. And we have two. One is Lee Ann  
9 Eager followed by Randall Winston, please.

10          Good morning, Lee Ann.

11          MS. EAGER: Good morning. I'm Lee Ann Eager,  
12 President and CEO of the Economic Development Corporation  
13 in Fresno.

14          As some of you might've read, I just got back the  
15 night before last from Spain. We took a contingency of 12  
16 to do a high-speed rail whirlwind tour through Spain. And  
17 I have to say I won't take away their thunder, because they  
18 want to come and talk to you about it, but we have a group  
19 of 11 others now that are so excited about the  
20 opportunities that high-speed rail will bring to the  
21 Valley.

22          We had the Mayor of Palmdale come and we were  
23 able to let him walk through some tunnels, so he could see  
24 what it would be like to tunnel to Palmdale.

25          But really what we saw were what this is going to

1 do for our communities. We talked to other mayors. We  
2 talked to civic leaders in those areas about what changes  
3 happened in their communities when high-speed rail came.  
4 So I have a group of people who are eager to come and talk  
5 to you next month in Fresno and tell you what it is that  
6 they have learned.

7           But really quickly, before I left I think we all  
8 know before we leave for a week or two you have to work  
9 triple before you can leave town. And working on right-of-  
10 way issues in Fresno, I think Diane and I tripled our time  
11 during that time period in meeting with business owners and  
12 farmers. And I think we made quite -- I think before we  
13 left we had some great meetings and got some things going.  
14 While I was gone I got some emails from some folks saying  
15 they're ready to sign.

16           But I wanted to give a shout out to Diana for the  
17 work that she has been doing there in the Valley in  
18 ensuring that we are able to move forward. And when I go  
19 meet with a farmer and we're getting close and they say,  
20 "Well, who do I need to talk to, to get this done?" and I  
21 bring Diana in, she's our closer. And so we've really had  
22 some great expectations that have come to fruition with her  
23 help there in the Valley. So I just want to make sure I  
24 acknowledge that with you.

25           And we're going to continue now that I'm back.

1 We're going out again. And we look forward to the meeting  
2 in Fresno. Thank you.

3 VICE CHAIR RICHARDS: Thank you, Ms. Eager.  
4 Now, Randall Winston, please?

5 UNIDENTIFIED FEMALE SPEAKER: He's not here yet.

6 VICE CHAIR RICHARDS: He's not here yet. Okay,  
7 we'll return to Randall Winston. And next is Mr. Robert  
8 Allen followed by Keith Dunn.

9 Mr. Allen, okay. Good morning, Mr. Allen.

10 MR. ALLEN: Good morning. I'm here to request  
11 that you be sure of having clearance from the Public  
12 Utilities Commission. The Public Utilities Commission has  
13 jurisdiction over railroad crossings. And if you -- in  
14 particular with the peninsula commute, operating on the  
15 Caltrain line without the permission of the PUC would be  
16 probably against the regulations.

17 There are some 20 standards that the PUC uses to  
18 determine priority for grade separations. And I would urge  
19 that you be sure of getting grade-separated right-of-way  
20 wherever you run; that you don't run high-speed rail where  
21 you have grade crossings. It's very much like we don't  
22 have grade crossings on freeways. The freeway speed is  
23 only about 65 miles an hour. High-speed rail would be 110  
24 or 125 miles an hour. At the present time Caltrain is 79  
25 miles an hour maximum.

1 I would urge that you be sure of getting a proper  
2 hearing before the Public Utilities Commission -- the grade  
3 crossing -- the road crossing and engineering branch -- and  
4 that you get the proper clearance. Thank you.

5 VICE CHAIR RICHARDS: Thank you, Mr. Allen.  
6 Thank you for being here.

7 We have just two other speakers, Keith Dunn  
8 followed by Randall Winston. Keith Dunn? Okay. Has  
9 Mr. Winston arrived yet? Okay. We'll look forward to  
10 hearing from Mr. Winston who has recently been appointed as  
11 the Executive Director of the Strategic Growth Council by  
12 the Governor. Is he here now?

13 UNIDENTIFIED MALE SPEAKER: Keith Dunn.

14 VICE CHAIR RICHARDS: Oh, Keith?

15 (Video clip: Female narrator: Okay, so this is  
16 probably you.)

17 Keith Dunn. (Laughter)

18 MR. DUNN: Sorry, I was -- I'm Keith Dunn. I'm  
19 pleased to be here on behalf of the Association for  
20 California High-Speed Trains.

21 The organization has spent the last few years  
22 supporting this project in the Legislature, but also moving  
23 up and down the State. In the last, about six months, the  
24 organization has taken on a PR campaign in which we're  
25 going to be going out and visiting with schools, civic

1 forums, different public institutions and outreach groups  
2 to talk about the project. To let them know the progress  
3 that's been made, what the plans are, how it's going to  
4 help meet some of the policy goals that have been  
5 instituted by our Governor and by our elected officials.

6           So along those lines, the organization produced a  
7 web video, which we will be introducing here today and then  
8 putting out through social media and then also partnering  
9 with some local school and municipalities to have it on  
10 their websites in different organizations. So that it's an  
11 awareness campaign, something that gets people interested.

12           And then also has instituted the "I Will Ride"  
13 Campaign that's been -- you know, had a pretty good  
14 following here throughout the State. So I'd like to play  
15 that for you.

16           We've also updated our website and kind of tuned  
17 things up, so that we can get engaged with folks as the  
18 dialogue and the outreach -- which was really one of the  
19 major challenges of the Board and the organization.

20           So let me see if I can -- oh, I've got someone  
21 doing it for me.

22           (VIDEO: Opens with music followed by voice over.)

23           "Okay. So this is probably you, stuck in rush  
24 hour traffic along with millions of other Californians.  
25 But then you look to your right. What's that? A blur.

1            "It's a high-speed train whizzing from city to  
2 city at over 200 miles per hour. Don't you wish you could  
3 be on that train, relaxing with your special-blend coffee  
4 while using your mobile device? Well, guess what? You  
5 can. California's voters are once again leading the  
6 nation, embracing a high-speed rail system that will  
7 stretch all the way from Los Angeles to San Francisco  
8 linking every major city in between.

9            "California's economy needs a better way to  
10 transport our most vital resource efficiently, people.  
11 Building additional airports and freeway means to transport  
12 the number of people that could travel by high-speed rail  
13 is not realistic. High-speed rail is the right investment  
14 to grow California's economy, relieve congested airports  
15 and freeways, and help create a better environment.

16           "Ever thought about working on the railroad?  
17 Building the high-speed rail will create good jobs for  
18 hardworking Californians. An estimated 600,000  
19 construction-related jobs will be generated over the course  
20 of building the project with over 450,000 permanent new  
21 jobs created by the economic growth high-speed rail will  
22 bring over the next 25 years.

23           "High-speed rail will decrease traffic  
24 congestion, reduce greenhouse gases while providing good-  
25 paying jobs for hardworking California families.

1 California continues to take the lead, as it has so many  
2 times before, and solving our infrastructure needs isn't  
3 easy. But supporting high-speed rail is an easy choice, so  
4 get on board with the high-speed rail project and meet the  
5 need with high speed. See how you can help at  
6 [www.achst.com](http://www.achst.com)"

7 "Okay. So this is probably you..."

8 MR. DUNN: You probably only need to see it once.

9 (Laughter)

10 Anyway, so that's the effort. You're the first  
11 unveiling. It's going to be going on social media and  
12 different things, but we're hoping to engage communities to  
13 kind of spark their interest. And then really use it as a  
14 tool to get people involved and engaged, in the discussion  
15 that we all know needs to take place, as you get into  
16 communities and start talking about what this means as far  
17 as jobs and what it means for the environment and what it  
18 means for the existing footprint of their community. So  
19 we're hoping that it's a good outreach tool. I think that  
20 we've gotten positive responses from the folks that have  
21 reviewed it prior to its official screening here today.

22 And with that we'd just like to say thank you for  
23 your hard work. And we're going to continue to try and do  
24 our best to support your efforts. Any questions?

25 VICE CHAIR RICHARDS: Thank you, Mr. Dunn, for

1 your association's support and critical perspective. We  
2 appreciate it very much.

3 MR. DUNN: Thank you. If there's any questions  
4 from anybody let me know.

5 BOARD MEMBER CURTIN: I just want to thank you  
6 for the cartoon, because it (indiscernible)

7 MR. DUNN: Well, as the new member of the Board  
8 we did want to tailor it to the newest member, because I do  
9 have some experience with Mr. Curtin.

10 BOARD MEMBER CURTIN: The lowest common  
11 denominator.

12 MR. DUNN: And I found pictures are always best,  
13 so thank you.

14 VICE CHAIR RICHARDS: Thank you, very much.

15 Mr. Winston, Randall Winston? Good morning, sir.  
16 I mentioned before you were in the room, but just to repeat  
17 it, that Mr. Winston has recently been appointed by the  
18 Governor as the Executive Director of the Strategic Growth  
19 Council. Welcome, sir.

20 MR. WINSTON: Welcome and good morning. Thank  
21 you so much for allowing me to provide a few comments here.  
22 And it's a pleasure to speak before you all this morning.

23 I just wanted to speak briefly about two programs  
24 that the Strategic Growth Council administers as part of  
25 the Greenhouse Gas Reduction Fund. And also in cooperation

1 with one of our team members who is supported by High Speed  
2 Rail, Suzanne Hague and another member, Denny Grossman. So  
3 thank you again.

4           These programs receive 20 percent of Greenhouse  
5 Gas Reduction Fund annually. And as you all know they are  
6 intended to help lay the foundation for the system-wide  
7 changes that the State will need to achieve our longer  
8 goals around AB 32 in specifically reducing greenhouse gas  
9 emissions to 80 percent below 1990 levels by 2030.

10           Now, the purpose of SGC's programs are to invest  
11 in projects that again reduce greenhouse gases by  
12 supporting more compact infill development patterns,  
13 encouraging active transportation and transit usage and  
14 protecting agricultural land from sprawl development.

15           In other words, in the context of high-speed rail  
16 and the work that Denny and Suzanne are working on these  
17 programs are part of a combination of carrots and sticks  
18 that we're employing to incentivize smarter land use policy  
19 that issues multiple benefits. These include decrease of  
20 vehicle miles traveled, better access to jobs and economic  
21 opportunities, less water usage and improve public health.

22           And I want to emphasize that these efforts are  
23 not only important, but really critical. A recent report  
24 by Calthorpe Associates, which builds on the larger  
25 greenhouse gas reduction study by E3 found that smarter

1 land use policies in combination with advances in the  
2 energy and transportation sectors will be essential to  
3 achieving our 2030 goals.

4 So we're excited to be working you all and  
5 partnering with you all. Thank you again for allow me to  
6 providing some comments and look forward to working  
7 together in the future. Thank you.

8 VICE CHAIR RICHARDS: Thank you, Mr. Winston, and  
9 congratulations.

10 MR. WINSTON: Thank you.

11 VICE CHAIR RICHARDS: We'll now move on to our  
12 agenda items. And we'll start with item number one, which  
13 is approval of minutes. We have two sets of minutes to  
14 approve and we'll take them together unless you would like  
15 to pull them apart. But we have August 4 and September 8.

16 If we have no additions, deletions or other  
17 changes do we have a motion?

18 BOARD MEMBER ROSSI: So moved.

19 BOARD MEMBER SCHENK: Second.

20 VICE CHAIR RICHARDS: Okay, by Director Rossi,  
21 second by Director Schenk. Roll call, please.

22 MS. NEIBEL: Director Schenk?

23 BOARD MEMBER SCHENK: Yes.

24 MS. NEIBEL: Vice Chair Richards?

25 VICE CHAIR RICHARDS: Yes.

1

MS. NEIBEL: Director Rossi?

2

BOARD MEMBER ROSSI: Yes.

3

MS. NEIBEL: Vice Chair Selby?

4

VICE CHAIR SELBY: Yes.

5

MS. NEIBEL: Director Correa?

6

BOARD MEMBER CORREA: Yes.

7

MS. NEIBEL: Director Curtin?

8

BOARD MEMBER CURTIN: Yes.

9

MS. NEIBEL: And Chair Richard has not joined us  
yet.

10

11

VICE CHAIR RICHARDS: Okay. Thank you.

12

What we're going to do now is we're going to move  
out of order until Chairman Richard arrives. And I haven't  
said this to you, Russ, but if you wouldn't mind we're  
going to go to agenda item number five, which is a  
quarterly presentation of the Finance and Audit Committee  
Reports.

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MR. FONG: Good morning, Board Members, Mr.  
Morales, Russ Fong, your CFO.

21

22

23

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25

Today we're going to talk about agenda item five.  
We'll have Paula, Scott, Jon and I go over each of our  
areas of responsibility. We will highlight financial  
reporting, audits and introduce a new report called the  
Operations Report. This performance report will focus on

1 right-of-way, construction management, environmental third-  
2 party and risk management.

3           As we continue to find new ways to present  
4 important information as efficiently as possible, we think  
5 today's presentation is a step in the right direction.  
6 Although we have decreased the number of slides by 50  
7 percent we've increased the amount of financial and  
8 performance information tremendously.

9           CHIEF EXECUTIVE OFFICER MORALES: We are a  
10 learning organization.

11           MR. FONG: Yes. Let's talk about the financial  
12 reports first. We've introduced a new report called the  
13 Executive Summary. This report targets those that don't  
14 have the time or desire to review all of our reports. It  
15 highlights the key performance data using trends of prior  
16 month and prior year. The bullet points will list key  
17 information and the issue section will highlight what I  
18 believe the Board and stakeholders need to know.

19           So let's take a look at our first report,  
20 Accounts Payable Aging Report. The bullet points will list  
21 the data, two months of a zero balance while at the same  
22 last year we had a balance of \$5.1 million. The issue is  
23 that we might start having age reports due to the focus on  
24 spending federal funds. The federal reimbursement takes an  
25 additional three weeks to process invoices.

1           Moving on to our Cash Management Report, we  
2 currently have a cash balance of \$38 million in Prop 1A.  
3 Last month's \$41 million balance was due to bond sales that  
4 occurred in July.

5           We have \$443 million in Cap and Trade. Our  
6 balance grew from month to month, because of our auction  
7 proceeds, which occur in the months of August, November,  
8 February and May, exceeded our right-of-way and  
9 construction expenditures.

10           Moving on to our Budget Expenditures Report, this  
11 is our administrative budget. We've created two new  
12 divisions: the Audit Division which was pulled out of the  
13 Executive Division and the Regional Directors Division from  
14 External Affairs. This will create more transparency and  
15 accountability.

16           We did receive 45 new positions over the last 6  
17 months, which explains our 22 percent vacancy rate, which  
18 is down from 24 percent from last month. We spent 10  
19 percent of our admin budget compared to 4 percent last  
20 month and this is consistent from last year's 11 percent.  
21 The admin budget did increase to \$40 million, a 27 percent  
22 increase from last year's \$32 million budget of which 94  
23 percent of this increase is in personal services due to the  
24 increase in staff.

25           Moving on to our Capital Outlay and Expenditures

1 Report, for September we had a zero balance, which was very  
2 unusual. And basically it was we did not receive any  
3 invoices during this period. The October expenditure rate  
4 of \$74 million was primarily due to right-of-way and  
5 design-build contract work.

6 The capital outlay budget went from last year's  
7 \$479 million to this year's \$1.7 billion. The \$1.7 billion  
8 number is a placeholder and it will be rebaseline in the  
9 coming months.

10 Our Total Project Expenditures With Forecast, if  
11 you take a look at the left chart this reflects our state  
12 and federal funds spent from 2006 to the present. The  
13 middle chart reflects the State's match to the ARRA funds.  
14 And the right chart reflects the State's match liabilities.

15 As we go on to our Contracts & Expenditures  
16 Report for October we have \$4.6 billion in active  
17 contracts. That's a \$39 million increase from last month.  
18 Our small business utilization rate is 20.87 percent, a  
19 slight decrease from last month but much higher than the 16  
20 percent reported in February, which was our first report.  
21 As construction continues to increase we anticipate the  
22 upward trend to continue.

23 Moving on to my last slide, the Project  
24 Initiatives Report, for the month of October we have one  
25 item on hold, which is the financial system. And we have

1 one caution item, which is the hiring of staff in the '15-  
2 '16 positions due to the large positions that we inherited  
3 over the last six months.

4 This concludes my portion of the presentation.  
5 As I transition to Audits I'd like to introduce Paula  
6 Rivera. Thank you.

7 VICE CHAIR RICHARDS: If we could for a moment,  
8 Russ, before you sit down so that any of my colleagues --  
9 if they have any questions for you.

10 Before we do that do you have anything, Mr.  
11 Rossi?

12 BOARD MEMBER ROSSI: No.

13 CHIEF EXECUTIVE OFFICER MORALES: Can I just make  
14 one clarification?

15 VICE CHAIR RICHARDS: Yes, please.

16 CHIEF EXECUTIVE OFFICER MORALES: Because I am  
17 anticipating we may get a question on it. On the small  
18 business utilization I want to make clear that the 30  
19 percent goal is in all of our contracts. We have that  
20 commitment from the contractors to do it. The numbers that  
21 we're showing are the actual utilization of small  
22 businesses within that period, so reflecting the actual  
23 work done in that time period. It does not mean we're not  
24 going to meet our overall 30 percent. It's just a real-  
25 time tracking (indiscernible)

1 MR. FONG: That is correct.

2 BOARD MEMBER SCHENK: And Mr. Vice Chair, I ---

3 VICE CHAIR RICHARDS: Any other questions for --  
4 yes?

5 BOARD MEMBER SCHENK: Yeah, can you elaborate a  
6 little bit on the draw down on the vacancy rate, this 22  
7 percent?

8 MR. FONG: Sure. Currently we have 161 positions  
9 filled. We have 219 total. Of that, 51.5 vacant positions  
10 that we currently have of which 40 are currently being  
11 advertised and another 27 are close to being hired.

12 So again, it's really the 22 percent vacancy rate  
13 is due to the fact that we just received 45 new positions  
14 over the last 6 months, but we're aggressively hiring. And  
15 we anticipate that number to go down next month.

16 VICE CHAIR RICHARDS: Yes, Vice Chair Selby?

17 VICE CHAIR SELBY: Yeah, I note that you have  
18 unmatched -- I think it was one of the last slides you  
19 talked about unmatched federal funds. And how are we going  
20 to match those?

21 MR. FONG: So with the tapered match our focus  
22 right now is to spend the federal funds, the ARRA dollars.  
23 We want to spend that by 2017 and at the end of that we  
24 time to actually match that portion. So it doesn't have to  
25 be 50 cents to 50 cents for every dollar spent as long as

1 we end up and commit that we will match those funds.

2           So again, the focus is to spend the federal  
3 funds, which that number will grow quite a bit over the  
4 next year and a half. And then at the end we will match it  
5 with the state funds.

6           VICE CHAIR SELBY: And do we have those state  
7 funds now? That's what I'm trying to figure out.

8           MR. FONG: Yes.

9           VICE CHAIR SELBY: And would that come from Cap  
10 and Trade or would that come -- do you have that earmarked  
11 or is that --

12           MR. FONG: It'll either be Prop 1A or Cap and  
13 Trade, but we want to be flexible. I will have to see what  
14 will happen over the next year now.

15           CHIEF EXECUTIVE OFFICER MORALES: The Legislature  
16 appropriated Prop 1A funds to match those federal funds, so  
17 that's the intent. And right what we're doing now is  
18 spending the federal money at a higher rate earlier and  
19 then we'll spend state money at a higher rate later in the  
20 project.

21           VICE CHAIR SELBY: Thank you.

22           BOARD MEMBER CORREA: Through the Chair, a quick  
23 question.

24           A couple of slides ago you showed the small  
25 business utilization rate, do you have a veterans'

1 utilization rate?

2 MR. FONG: We don't have it being tracked right  
3 now. I'd have to look into that, but it's a number that we  
4 could find. It's just not on currently on my reports.

5 BOARD MEMBER CORREA: I'd like to look at that  
6 number, sir.

7 MR. FONG: Sure.

8 BOARD MEMBER CORREA: Thank you.

9 VICE CHAIR RICHARDS: Any other questions for Mr.  
10 Fong?

11 Thank you, Russ.

12 MR. FONG: Thank you.

13 VICE CHAIR RICHARDS: Okay. We'll move --

14 CHIEF EXECUTIVE OFFICER MORALES: Do we call the  
15 roll or call --

16 VICE CHAIR RICHARDS: We're going to go ahead and  
17 finish this item and then we'll do it.

18 Ms. Rivera, good afternoon or good morning.

19 MS. RIVERA: Good morning. I'm Paula Rivera, I'm  
20 with Audits. And I was asked to bring a joke to this  
21 meeting.

22 CHAIRMAN RICHARD: Is this a joke, joke or an  
23 auditor's joke?

24 MS. RIVERA: It's an audit joke and I have to  
25 admit I lifted it from an audit conference that I went to.

1           CHAIRMAN RICHARD: Oh, boy.

2           MS. RIVERA: So just to clarify, the difference  
3 between an introverted auditor and an extroverted auditor  
4 is the extroverted auditor looks at your shoes.

5           (Laughter.)

6           VICE CHAIR RICHARDS: Thank you for the report.

7           MS. RIVERA: So that's probably my last joke  
8 ever.

9           So my portion of the presentation is to update  
10 the activity in the Audits for the first quarter of this  
11 fiscal year. We completed one review, pre-award review of  
12 the cost proposal for the project construction management  
13 contract. And we issued that report September 22nd.

14           The findings included some misstated labor rates,  
15 misstated overhead rates and some other direct cost rates.  
16 But all of those issues that were identified have been  
17 addressed and will be corrected before the contract is  
18 executed.

19           We have a number of audits that are in progress.

20           Design-build oversight, we are reviewing the  
21 processes and practices that are in place to assure the  
22 risk model of design-build is maintained with the authority  
23 role of design acceptance and oversight. We spent some  
24 time in Fresno; we've done a number of interviews. We're  
25 developing a risk assessment or risk matrix and we'll go

1 back to do some specific testing of the process.

2           We're also working on right-of-way continuous  
3 auditing, which is not a technique where we're auditing  
4 real-time data. We'll do it a little bit every month and  
5 we'll take a look at a different step in the right-of-way  
6 acquisition process, take a look at how data is accumulated  
7 and how it's reported.

8           We also are winding up an audit of the design-  
9 build stipend process. So we took a look at the  
10 Authority's compliance with policy and procedures that are  
11 being developed for the payment of stipends for design-  
12 build proposers, and also the advanced technical concepts  
13 that are identified during the evaluation process.

14           A couple of follow-up reviews in process, one is  
15 of a prompt payment audit that was done a number of years  
16 ago. And our objective was to see if the prior findings  
17 were addressed and corrective actions were implemented.

18           The Office of Accounting had a significant effort  
19 last fall, to take a look at prior payments to determine  
20 what the penalties were. And our review focused on was the  
21 universe complete, did they have all of the invoices  
22 included in what they reviewed, and then were the penalty  
23 payments accurate?

24           We also are doing a review of a small business --  
25 a follow-up review of the small business audit that was

1 done. We want to be sure that the prior findings were  
2 addressed and the corrective actions were implemented. And  
3 the purpose of this is to be sure that the corrective  
4 actions implemented allow us to evaluate whether small  
5 business utilization data is consistently and accurately  
6 reported. So we looked at the process, not the numbers  
7 specifically.

8           These last two are some that we just started this  
9 quarter. Contract management continuation and follow-up,  
10 we issued a contract management audit last January, so  
11 we're doing the follow-up to see if the prior findings were  
12 addressed. And we're also expanding the scope of the audit  
13 to include all contract managers for the Authority.  
14 Previously, our scope was 70 percent, which were the  
15 contracts that were of the highest dollar value.

16           And then we're initiating -- we've been doing a  
17 lot of preliminary work and we'll have an entrance  
18 conference next week for an incurred cost contract audit,  
19 which looks at costs that were billed to the Authority and  
20 reimbursed by the Authority to be sure that they comply  
21 with the federal regulations and the contract terms.

22           VICE CHAIR RICHARDS: Any questions for  
23 Ms. Rivera?

24           BOARD MEMBER SCHENK: Yeah.

25           VICE CHAIR RICHARDS: Yes, Director Schenk?

1           BOARD MEMBER SCHENK: With the incurred contract  
2 cost audit, I understand allowable billing to clients, but  
3 what is the measure of reasonable?

4           MS. RIVERA: Reasonable is in compliance with the  
5 federal regulations. So it's the Code of Federal  
6 Regulations Title 48, Part 31. And that identifies --  
7 there's a definition of reasonableness and then there's  
8 some specific items of cost that are identified.

9           BOARD MEMBER SCHENK: But it's all under the  
10 Federal Regulations, right?

11          MS. RIVERA: Yes.

12          BOARD MEMBER SCHENK: So I guess it's just a  
13 redundancy that brings to mind is there something more than  
14 what is in this CFR that we're looking at for  
15 reasonableness?

16          MS. RIVERA: We look at two things, the  
17 reasonableness of a specific cost in accordance with the  
18 Federal Regulation and then we look at the reasonableness  
19 of the cost for the particular contract. So is a cost  
20 reasonable in the ordinary course of business to be  
21 included in the overhead? And then for this particular  
22 project, were the costs reasonable? Were there 100 hours  
23 estimated to produce this report and 200 hours were  
24 incurred. We will ask about the reasonableness of the  
25 costs on this particular contract as well as the

1 reasonably of a cost in their overhead.

2 BOARD MEMBER SCHENK: I guess my question is, are  
3 there measures of reasonableness that are not in the CFR  
4 that we apply?

5 MS. RIVERA: Based on the scope of the contract?

6 BOARD MEMBER SCHENK: Yes.

7 MS. RIVERA: So whatever was in the annual work  
8 plan or whatever was in the scope of the contract, we'll  
9 look to see that those costs are reasonable for the scope  
10 of a specific contract.

11 CHIEF EXECUTIVE OFFICER MORALES: I think the  
12 definitions we're using are basically those that are in the  
13 Federal Regs as well, yes.

14 BOARD MEMBER SCHENK: Right.

15 MS. RIVERA: Yes.

16 BOARD MEMBER SCHENK: So we're going circular, so  
17 I don't want to belabor it, but it seems redundant to have  
18 "reasonable," "allowable." I mean, it's all within the  
19 Federal Regulation contract regs, right? We don't have any  
20 additional measures of reasonableness other than what's in  
21 the Code, the Federal Code. Is that right or is that  
22 wrong?

23 MS. RIVERA: The definition of reasonableness is  
24 in the Federal Code, but we're looking at it in two ways.  
25 The Federal Code identifies reasonable overhead expenses,

1 so we'll look at that. And the contract scope identifies  
2 the work to be done, and so we'll look at costs that were  
3 billed and reimbursed with the scope.

4 BOARD MEMBER SCHENK: Okay. Thank you.

5 VICE CHAIR RICHARDS: All right, Director Shelby?

6 VICE CHAIR SELBY: Yeah, I just -- when you're  
7 talking about the payments and auditing the payments do you  
8 also audit or do we, in any way, track the payments that  
9 the primes pay to the subs? Is there anything that we do  
10 on our part to make sure that -- let's say if we are paying  
11 promptly, which I think we are now paying promptly, which  
12 is great -- that they are then remitting back to the subs  
13 promptly as well?

14 MS. RIVERA: It depends on the contract. Most  
15 contracts that we have now identify that subs have to be  
16 paid within ten days of receiving payment from the  
17 Authority. And so we would definitely include that as one  
18 of the contract terms that we're auditing to.

19 VICE CHAIR SELBY: Thank you.

20 VICE CHAIR RICHARDS: Are there any other -- yes,  
21 Director Rossi?

22 BOARD MEMBER ROSSI: Paula, a couple of things.  
23 As you've done all these audits, you will have come across  
24 exceptions, and would you say that the vast majority of  
25 those exceptions were nonmaterial?

1 MS. RIVERA: Yes.

2 BOARD MEMBER ROSSI: So that the Authority is  
3 really doing an excellent job in that area?

4 MS. RIVERA: Yes.

5 BOARD MEMBER ROSSI: And the second thing is that  
6 as you look at a new organization, it's going to be the way  
7 to ramp up for the creation of policies and procedures.  
8 And some of your earlier audits would indicate that we were  
9 behind. As you look at your recent audits would you say  
10 that the Authority is catching up with those policies and  
11 procedures?

12 MS. RIVERA: Yes. We found that overarching  
13 policies and procedures are in place for everything that  
14 we've looked at and now the programs are working into a  
15 more finder level of procedures and practices.

16 BOARD MEMBER ROSSI: Fantastic. Thank you.

17 MS. RIVERA: Thank you.

18 VICE CHAIR RICHARDS: Any other questions -- yes,  
19 sir?

20 CHAIRMAN RICHARD: I'm sorry, did --

21 UNIDENTIFIED MALE: Do we need to mark you  
22 present before you participate?

23 CHAIRMAN RICHARD: Do we need to mark me present  
24 before I participate?

25 VICE CHAIR RICHARDS: No. I was going to do that

1 as soon as we were finished here, but if you have a  
2 comment --

3 CHAIRMAN RICHARD: Oh, I just had a quick  
4 question.

5 VICE CHAIR RICHARDS: -- no, Chair Richard has  
6 arrived and will take charge of the meeting.

7 CHAIRMAN RICHARD: Well, I've arrived so I  
8 apologize for being late.

9 Just a quick question, on the audit of the  
10 stipends that were paid I know there's been some public  
11 commentary about the stipends, so I think that most of us  
12 involved in this feel that they've demonstrably been in the  
13 public interest and have probably saved the public a lot of  
14 money. But I just wanted to understand, was the nature of  
15 the audit around the policy idea behind the stipends itself  
16 or was it on the application of how those stipends were --

17 MS. RIVERA: It was the application.

18 CHAIRMAN RICHARD: Okay.

19 MS. RIVERA: It was the process of the stipend is  
20 paid based on demonstrated costs and we looked --

21 CHAIRMAN RICHARD: So you were just basically  
22 confirming them?

23 MS. RIVERA: -- to be sure that there were  
24 demonstrated costs. So we were looking at the process for  
25 paying a stipend.

1           CHAIRMAN RICHARD: Okay. That's what I thought,  
2 I just wanted to be clear.

3           MS. RIVERA: Okay.

4           CHAIRMAN RICHARD: Thanks, okay.

5           Other questions for Ms. Rivera?

6           Okay. Do we need to reopen the -- Tom, do we  
7 need to reopen the -- okay, we don't.

8           VICE CHAIR RICHARDS: We've got another speaker.

9           CHAIRMAN RICHARD: Yeah, no I understand.

10          So we were going to excuse you and thank you for  
11 your joke.

12          MS. RIVERA: Thank you.

13          (Laughter.)

14          CHAIRMAN RICHARD: And I'm sorry to be late, but  
15 I'm just so glad I got here in time for the --

16          Good morning, Scott.

17          MR. JARVIS: Good morning, Board Members and CEO  
18 Morales. I'm going to give you an update on program  
19 delivery.

20          And so for the program to be successfully  
21 delivered many activities need to be successfully and  
22 concurrently managed. And today I will provide an update  
23 on four critical delivery areas: environmental clearances,  
24 third party agreements, right-of-way and civil works.

25          So regarding environmental clearances, to date

1 the Authority has successfully delivered two environmental  
2 clearance documents, both in the Central Valley -- Merced  
3 to Fresno and Fresno to Bakersfield. Moving forward, we  
4 have established an aggressive goal to clear the remaining  
5 ten environmental sections by December of 2017.

6 Now, each of the remaining ten environmental  
7 clearance sections, they have an established schedule to  
8 reach environmental clearance by certain goal dates. So a  
9 schedule for each of the five major milestones leading to a  
10 Record of Decision has been developed and will be tracked  
11 and managed. And I realize that this is difficult to read,  
12 it has a lot of information, but the overall point is that  
13 the remaining environmental sections have an established  
14 schedule as we move forward to reach a Record of Decision.

15 So now I'm going to give a very high-level  
16 summary for each of the remaining environmental clearance  
17 sections. There's two in Northern California, two  
18 clearance sections; four in the Central Valley and four in  
19 Southern California.

20 So for the Northern California sections we have  
21 San Francisco to San Jose and San Jose to the Central  
22 Valley Wye. And so in those sections extensive community  
23 and elected official engagement has been kicked off.

24 In the Central Valley section we had the Central  
25 Valley Wye where the Administrative Draft EIR/EIS is being

1 written. We had the Central Valley Electrical  
2 Interconnections Clearance document and coordination work  
3 is going on with PG&E for that. We have the heavy  
4 maintenance facility where the approach is under review.  
5 And we have the Bakersfield F Street alignment and we're  
6 continuing with public outreach on that.

7           And in Southern California we have four  
8 environmental clearance sections. For Bakersfield to  
9 Palmdale, the Supplemental Analysis will be completed in  
10 the fall of 2015 and that's also the case with Burbank to  
11 Los Angeles and Los Angeles to Anaheim. For Palmdale to  
12 Burbank, that Supplemental Analysis has been completed.

13           So for third party agreements, this is another  
14 very important aspect of program delivery and especially in  
15 the early stages of the delivery of our program.

16           And so before we delve into the details of the  
17 status of third party agreements, I think it's important to  
18 just understand what the definition is and what a third  
19 party agreement is. So there's the definition, but  
20 essentially they pertain to facilities that would  
21 ultimately be in the way of constructing our facility. So  
22 some action has to be taken to either relocate or protect  
23 that facility.

24           So in the world of agreements, many type of  
25 agreements exist. And the third party agreements make up a

1 subset of five different types of agreements. So there's  
2 master agreements within third party agreements, utility  
3 agreements, cooperative agreements, grade separation  
4 agreements and task orders. And within those agreements  
5 there's different responsibilities to actually develop and  
6 obtain execution and manage those agreements.

7           So for the master agreements and the cooperative  
8 agreements, those are with the Authority. The utility  
9 agreements and the task orders, those are with the design-  
10 builder. And for the grade separation agreements, those  
11 occur later on in the project when the design has been  
12 further advanced. That's with our project and construction  
13 management firm.

14           BOARD MEMBER CURTIN: Excuse me, Mr. Chairman?

15           CHAIRMAN RICHARD: Yes, sir?

16           BOARD MEMBER CURTIN: Can I ask a quick question?

17           MR. JARVIS: Sure.

18           BOARD MEMBER CURTIN: Could you just give us an  
19 example of those five different types of agreements?

20 Obviously utility agreements is pretty self-explanatory.

21           MR. JARVIS: Right, right. Well, yeah Matt --

22           BOARD MEMBER CURTIN: (Indiscernible)

23           MR. JARVIS: Right, right. Master agreements are  
24 -- they are with the nongovernment entities. I mean, you  
25 might have PG&E, you could have Sprint, you could have

1 Verizon. And so it's an agreement of, you know, the  
2 overall roles and responsibilities for the relocation or  
3 protection of that facility.

4 The cooperative agreements are with the  
5 government entities. Similarly, it could be City of  
6 Fresno, it could be the County of Fresno, but similarly for  
7 their utilities.

8 Utility agreements and task orders, that's when  
9 you drill down more with the design-builder. And they're  
10 actually working directly with that utility company and  
11 developing that overall utility agreement and then specific  
12 task orders for the specific locations where the work is  
13 going to take place that really define the work in those  
14 locations.

15 And then the grade separation agreements are with  
16 the agreements are with the local entities in the areas for  
17 the grade separations themselves.

18 THE COURT: Thank you.

19 MR. JARVIS: Okay. So for CP1 I think it's good  
20 to just kind of have perspective and get an idea of the  
21 construction conflicts. So for CP1 419 conflicts are  
22 currently known on CP1 and so of those 319 need to be  
23 relocated, so it's a large program.

24 So for CP1 there's 19 of the master and  
25 cooperative agreements, 15 master, 4 cooperative

1 agreements. And the good news is that all 4 of those have  
2 been developed and executed.

3 For CP2-3 there's 27 master and cooperative  
4 agreements that are needed. And we have a line there  
5 showing 2 less of 25 and that's because agreements with  
6 Kings County and the Kings County Water Districts may not  
7 be ultimately executed, so we do track that at 25. So to  
8 date, we're making very good progress on the CP2-3 master  
9 and cooperative agreements. So to date 17 of those have  
10 been developed and executed.

11 CHAIRMAN RICHARD: Yeah. And Scott, I just want  
12 to make the point for the record, so that everybody  
13 understand the failure to execute that is entirely because  
14 the County of Kings, in choosing to express their  
15 opposition to the project, has refused even to allow a  
16 cooperative agreement such as this to be entered into; is  
17 that correct?

18 MR. JARVIS: That is correct.

19 CHAIRMAN RICHARD: Okay. So everybody needs to  
20 understand why those two are not being executed.

21 MR. JARVIS: That's correct.

22 CHAIRMAN RICHARD: Thank you.

23 MR. JARVIS: Okay. So for the CP1 contract  
24 coordinating the work with PG&E and AT&T was not part of  
25 the design-builder's responsibility as originally those

1 entities would not work directly with the design-builder.  
2 So we consider those excluded. They're excluded from the  
3 CP1 contract and track those separately. So of the 24  
4 agreements required, the great majority are with AT&T and  
5 we're close with AT&T to reach an agreement and really  
6 opening that up and getting those executed. The two with  
7 PG&E have been executed.

8 We also track the railroad agreements separately,  
9 and so there's 12 total railroad agreements that have been  
10 developed and executed or 9 have actually been developed  
11 and executed. There is a total of 12, so this has been a  
12 long process to get to those 9, but we have made some very  
13 good progress in recent months with the railroad third  
14 party agreements.

15 The next area I'm going to talk about is very  
16 important to the delivery -- as we all know -- which is the  
17 right-of-way.

18 And for CP1, as you can see on the far left,  
19 there's 688 parcels are required and 339 of those have been  
20 delivered to the design-builder. So although the gross  
21 numbers are very important, it's also very important that  
22 we get the right parcels to the design-builder so that  
23 enough land exists for the design-builder to begin  
24 construction.

25 And we really focus on the longer lead

1 structures, locations there that'll take longer to go  
2 through the design and longer through the construction  
3 process, either critical or near-critical locations. So to  
4 date, the Authority has delivered the right-of-way to begin  
5 construction at 4 of those critical structure locations.

6 So as you can see from the chart, the early work  
7 of the appraisals and the first written offers has been  
8 done on a great majority of the parcels. And so of the  
9 remaining processes that have not yet been delivered, many  
10 of those are in the condemnation/eminent domain process.  
11 So 196 Resolutions of Necessities have been approved by the  
12 Public Works Board to date and so of those, 41 Orders of  
13 Possessions have been filed with the court. So we're  
14 working through that process.

15 So I know this is a pretty busy chart and it  
16 represents a lot of information, but let me just quickly  
17 explain it. The tan line towards the left represents the  
18 actual parcels delivered to date as of early September  
19 while the green-dotted line represents an early forecast  
20 for parcels. And the yellow dotted line represents a more  
21 conservative alternative forecast.

22 So the blue line represents the current plan  
23 although the plan moving forward will be revised to reflect  
24 the contractor's rebaseline schedule based upon the current  
25 facts and status of the project.

1           So now, moving on to right-of-way for  
2 Construction Package 2-3, many of the lessons learned from  
3 CP1 have been applied and right-of-way is off to a good  
4 start on CP2-3 as shown in the graph. Of the 543 parcels,  
5 just compensation has been approved on 495 of them with 81  
6 reaching the ultimate goal of transfer to the design-  
7 builder.

8           So as this chart shows with the tan line to the  
9 left, as I said we're off to a good start. We're ahead of  
10 the planned delivery. The delivery schedule will be  
11 rebaselined per the terms of the contract with the planned  
12 number of parcels being more gradual. And so that's a  
13 process that we're working through with the design-builder  
14 right now.

15           So working with the design-builder on right-of-  
16 way impacts of changing much of the design from a viaduct  
17 to an embankment is also part of that process that we're  
18 working through. As you remember there are quite a bit of  
19 savings through the alternative technical concept and so  
20 we're working through that and how that affects right-of-  
21 way in moving that forward.

22           The final area that I'm going to talk about is  
23 program delivery status related to our civil works, our  
24 large civil works program that we have going on in the  
25 Central Valley. So for each of the contracts that were

1 under contract, CP1 and CP2-3, I'm going to report on  
2 contingency value and schedule performance.

3 So for contingency value for CP1 we have \$150.2  
4 million remaining in the contingency, which is 17.4 percent  
5 of the remaining contract value of \$862 million. So we're  
6 currently in good shape with the contingency amount on CP1.

7 Now, the schedule performance index, due to a  
8 later than anticipated start to construction on CP1, the  
9 amount invoiced to date is less than what was anticipated  
10 at the time of the original baseline schedule. And  
11 therefore you see the yellow line on the bottom, which  
12 represents the value of the contract earned to date versus  
13 the blue line, which was based upon the original baseline  
14 schedule for the project of what was anticipated to be  
15 earned to date.

16 So as construction activities increase on CP1  
17 that gap between the blue line or the planned, original  
18 planned, and the yellow line invoice to date will begin to  
19 close.

20 For CP2-3 the contingency value, \$261 million  
21 remains in the contingency, which is 19.6 percent of the  
22 remaining contract value of \$1.33 billion, so we're in good  
23 shape with the contingency amount of CP2-3.

24 BOARD MEMBER ROSSI: Scott?

25 MR. JARVIS: Yes, sir?

1           BOARD MEMBER ROSSI: Could you explain why CP2-3  
2 is 19 percent versus 16 percent for CP1?

3           MR. JARVIS: Yes. Each project has a specific  
4 risk analysis that is performed and the contingency is  
5 based upon that very specific contingency factors and risk  
6 factors for the project. And so for the CP2-3 project, in  
7 going through the Monte Carlo Analysis, those individual  
8 risk factors led to this contingency amount.

9           Also, and I'll have Mr. Tapping elaborate on  
10 this, there is a higher confidence level on CP2-3 than CP1  
11 as far as staying within the contingency amount.

12           Okay. For the CP2-3 schedule performance index a  
13 baseline schedule will not be submitted by the design-  
14 builder until the Right-Of-Way Acquisition Plan is  
15 approved. So we don't have a baseline schedule to go off  
16 of, which is the plan schedule, the blue on the previous.  
17 But we do show the yellow, the expenditures to date. And  
18 as I said, we're off to a good start on CP2-3 with the work  
19 and the expenditures.

20           So the overall summary in program delivery, to be  
21 successful multiple focus areas must be managed  
22 concurrently and I just talked about four of them. And so,  
23 of course, there's challenges. They exist, they exist on  
24 all major infrastructure projects, but we manage and  
25 resolve those on a continual basis. And so we continue to

1 make positive progress in many areas. The goal of the  
2 program delivery is always to get to construction and to  
3 complete that construction.

4 Okay. So now I'm going to hand it off to --

5 CHAIRMAN RICHARD: Before you do I want to just  
6 see if there are questions for you now.

7 MR. JARVIS: Oh, yes. Yes.

8 CHAIRMAN RICHARD: Questions for Mr. Jarvis? I  
9 have one, but I'm just looking down the line.

10 Yes, Ms. Selby.

11 VICE CHAIR SELBY: Thank you for this report.  
12 This is really great and very helpful.

13 MR. JARVIS: You're welcome.

14 VICE CHAIR SELBY: I just had a couple of  
15 questions, some of them are clarifying questions. Find the  
16 right page here, page -- sorry -- page 32. It says here  
17 that an "8-month delay due to ATCs; contractor required to  
18 mitigate and bring back to schedule." Can you explain  
19 that, elaborate a little bit on that? What's an ATC for  
20 starters.

21 MR. JARVIS: Yeah. Yeah, and ATC is an  
22 Alternative Technical Concept. It's a concept that the  
23 design-builder proposes during the procurement process that  
24 the Authority approves as a concept. And then the design-  
25 builder then incorporates that concept into his bid amount

1 and the Authority realizes the benefit of that alternative  
2 technical concept. Basically, it's a way that they believe  
3 that the job can be done more effectively and efficiently  
4 and there's a cost savings resulting from that.

5 That wording is probably a little bit misleading  
6 in the sense that that did not delay the overall project of  
7 CP2-3, the ATC process. We're still, as far as starting  
8 the working days for the contract, the contractor is on  
9 schedule when the working days were started.

10 There was a bit of a delay that didn't actually  
11 affect the progress of the work to get to get to an  
12 executed contract as we worked through that ATC process.

13 VICE CHAIR SELBY: And the ATC, is that -- you  
14 mentioned the viaduct to embankment -- is that the ATC that  
15 you're referring to?

16 MR. JARVIS: Yes, that is the major cost savings  
17 ATC, was viaduct to embankment.

18 VICE CHAIR SELBY: Okay.

19 CHIEF EXECUTIVE OFFICER MORALES: Just to maybe  
20 clarify a little more?

21 MR. JARVIS: Sure.

22 CHIEF EXECUTIVE OFFICER MORALES: When we go out  
23 for procurement we provide all the bidders with  
24 approximately a 15 percent level of design, which  
25 identifies all the major issues. And then within that we

1 have assumptions about how the project would be built.  
2 Through the design-build process and through the stipend  
3 process we encourage them to come back with different ideas  
4 of how to do it.

5 Now, based on our plans we also develop a Right-  
6 Of-Way Plan that says if we would build it this way, this  
7 is what right-of-way we need. If they come back with a  
8 modification it can change that Right-Of-Way Plan and  
9 that's what these are. It's in some cases requiring more,  
10 in some cases less, but it's just a different right-of-way  
11 impact. So we now have to go back and acquire the property  
12 that they need, which is different than what we had  
13 identified.

14 VICE CHAIR SELBY: Okay. Then my second question  
15 is on page 34 and I'm just wondering if -- you know, it  
16 seems great, the contingency balance remaining that we have  
17 now. And I'm wondering if you have any sense if anywhere  
18 in the near future, and if so when, we might be hit with a  
19 lot of say change orders that would reduce that  
20 contingency?

21 MR. JARVIS: Yes, there are some major change  
22 orders being worked on, so within the next year you will  
23 see that amount of the remaining contingency balance  
24 reduced at a greater rate than it's been reduced to date.  
25 We're still comfortable with the amount in the contingency

1 amount, but you are correct, there will be an acceleration  
2 within the next year of some major change order.

3 VICE CHAIR SELBY: So the timing would be in the  
4 next year. And do you anticipate that it would remain  
5 above 10 percent, at that point, which is its corrective  
6 action?

7 MR. JARVIS: I can't really answer this at the  
8 moment. I could do some more analysis of that, of really  
9 what we anticipate the amount of the change orders are  
10 versus the remaining contract value in a year and see where  
11 we're at. But I would say we're comfortable with the  
12 overall contingency amount, I just don't know if it's going  
13 to be above 10 percent through that process.

14 VICE CHAIR SELBY: And my last question, it's  
15 kind of two-fold. One, when you're doing the rebaselining  
16 will this mean that the plan and the -- like well the plan  
17 for month-to-month, that will change dramatically and  
18 that's how you'll rebaseline it? So, for example, in  
19 August we're still under plan, right?

20 MR. JARVIS: Yes.

21 VICE CHAIR SELBY: Or for CP1?

22 MR. JARVIS: Yes.

23 VICE CHAIR SELBY: We're still under and when you  
24 rebaseline that will then -- and then we have September,  
25 which to me looks frighteningly large, you know? So if you

1 can explain that a little bit on a month-to-month. From my  
2 perspective I would certainly like to know where we might  
3 end up, but I'd also like to know that our plan has -- that  
4 we have a good expectation of meeting or beating our plan.

5 MR. JARVIS: Right, right. Yes, you are correct.  
6 When we rebaseline that blue line, that plan, will change  
7 based upon that new baseline. And for both CP1 and CP2-3  
8 it likely will flatten out and be more gradual and it'll  
9 match closer what our actual acquisition process can be,  
10 what our forecast can be. And so yeah, it'll change the  
11 month-to-month estimate of the parcels that'll be acquired  
12 and flatten that out for both CP1 and CP2-3.

13 For CP2-3 it was somewhat of a placeholder, as  
14 CEO Morales mentioned, that going through that ATC process  
15 we knew that we were going to have to take another look at  
16 the Right-Of-Way Acquisition Plan. And that'll be smoothed  
17 and flattened out as well.

18 CHAIRMAN RICHARD: I think that's inherent in  
19 your question, unless I heard it incorrectly, was perhaps  
20 an assumption that we're going to be rebaselining this on a  
21 pretty regular basis. And I don't know if that's what you  
22 meant to ask, but I don't believe that that is the case. I  
23 think that fundamentally the Construction Package 1, CP1  
24 contract was put out there, there were a lot of things in  
25 flux at the time that it was.

1           And so the best estimates were made at that  
2 snapshot in time of what we would commit to, to delivering  
3 to the contractor in terms of parcels. Time has moved on,  
4 circumstances have changed, people are on the ground, work  
5 is underway. So we're now looking at where we are. And  
6 because of the potentiality for penalties, if we don't hold  
7 up our end, it's time to sit down and do a new snapshot  
8 with the contractor of where we are between now and the end  
9 of the contract, so that our expectations and theirs are  
10 lined up. And I think that's an accurate description of  
11 how this works.

12           So it's not something that's an adjustment every  
13 month or anything like that, it's really at some key  
14 inflection points in the contract to get everybody back on  
15 the same understanding about what's going to happen.

16           MR. JARVIS: That's correct.

17           VICE CHAIR SELBY: Thank you, that's helpful.

18           MR. JARVIS: Okay, great.

19           CHAIRMAN RICHARD: Did you have other questions,  
20 Ms. Selby?

21           VICE CHAIR SELBY: Huh-uh.

22           BOARD MEMBER ROSSI: I do.

23           CHAIRMAN RICHARD: Mr. Rossi?

24           BOARD MEMBER ROSSI: Also in answer to these  
25 questions on contingency, I think when Jon comes up if you

1 look at page 43 it will lay out a tracking mechanism. So  
2 checking when you have potential problems with the size of  
3 the contingency you see certain things happen.

4 CHAIRMAN RICHARD: Right. And, you know, for  
5 those watching at home the key here is that the  
6 contingency, we're managing to this contingency. I mean,  
7 big infrastructure projects have challenges and things come  
8 up that you don't anticipate. And so we have a contingency  
9 to cover those eventualities. We have very sophisticated  
10 risk management processes that are constantly assessing  
11 where we are in that.

12 And then the focus that Management is giving to  
13 it and the focus that Finance and Audit Committee and the  
14 Board are giving to it is what are the things that are  
15 happening that might be drawing against that contingency  
16 and how are we in terms of our trajectory for the end of  
17 the project? So it's exactly the kind of focus that I  
18 think the Management and the Board ought to have to have to  
19 look at the contingency, because that's telling us what is  
20 moving outside of the normal bounds of the contractor.

21 I just had one question, Scott.

22 MR. JARVIS: Sure.

23 CHAIRMAN RICHARD: And share my colleague's  
24 comment that it was a very good presentation, as all of  
25 them have been so far this morning.

1           You mentioned that -- you made the very important  
2 point that with respect to the right-of-way parcel delivery  
3 for the contractor that while we're looking at the top line  
4 gross numbers that it's also very important to focus on the  
5 critical parcels, so that we're not getting in the way of  
6 the contractor's progression of building the project.

7           MR. JARVIS: Correct.

8           CHAIRMAN RICHARD: And you mentioned that we've  
9 delivered four, I guess, complete packages, of four of the  
10 parcels necessary at four of the critical sites.

11          MR. JARVIS: Correct.

12          CHAIRMAN RICHARD: I didn't know what the  
13 denominator was for that, four out of how many?

14          MR. JARVIS: Seven.

15          CHAIRMAN RICHARD: Out of seven, okay. Maybe you  
16 said it and I missed it, okay.

17          MR. JARVIS: Yes. It's four out of seven.

18          CHAIRMAN RICHARD: Okay. Four out of seven?

19          MR. JARVIS: Yes.

20          CHAIRMAN RICHARD: That's good, okay.

21          MR. JARVIS: Okay?

22          CHAIRMAN RICHARD: Thank you very much.

23          MR. JARVIS: All right, you're welcome.

24          (Colloquy between staff and board members.)

25          CHAIRMAN RICHARD: Well, actually just as we're

1 switching here, Scott, you can -- I was going to just  
2 direct a question to the CEO.

3           There's been a lot of commentary about the right-  
4 of-way acquisition process, and I think Scott's  
5 presentation laid out very transparently where we are. I  
6 think we've been candid and forthcoming about the fact that  
7 this got off to a slower start on Construction Package 1.  
8 And as we just saw on Construction Package 2 and 3 we're  
9 actually ahead of the game and so there are good lessons  
10 learned there.

11           But speaking of lessons learned, I know there's  
12 been a lot of review internally about the right-of-way  
13 acquisition process. And where it was, why it was behind,  
14 what trajectory it was going to be one. And Jeff, I know  
15 that you've both looked at this and made obviously some  
16 conclusions about it, but also some management -- you know,  
17 focused management attention on it. And so I just thought  
18 before we go to the next stage, because the right-of-way is  
19 so important to give you an opportunity to just comment on  
20 this in terms of the view of where we are?

21           CHIEF EXECUTIVE OFFICER MORALES: Sure. And it's  
22 important to note, as Scott mentioned, the contingency was  
23 a risk-based contingency where we identified and analyzed  
24 and quantified the potential likely impact of a number of  
25 different risks. So that the contrast of that is with what

1 is done on typical state projects, which is to simply apply  
2 a flat percentage contingency. And so that's why you see  
3 the contingency is different for different projects. It's  
4 because of the analysis and we identified right-of-way as a  
5 large risk early on. And we've seen that play out, but I  
6 think it's also important to note what the sources of that  
7 risk are and how it's played out and specifically the  
8 impact of litigation that we've seen on the project.

9           And, you know, we had the stated goal of some of  
10 the litigants was to create delay in the project. To a  
11 limited degree they've achieved that. It won't impact the  
12 ultimate delivery, but it certainly has had front end  
13 implications on the program in the form of lost time. And  
14 that's what we see reflected in the process.

15           We had, as a result of not being able to access  
16 the bond funds and other issues, had some 400 appraisals go  
17 stale that we had to go back and restart. That's a real  
18 cost in time and dollars to the program.

19           We're continuing to see impacts to the right-of-  
20 way process. And although 2-3, in fact has gotten off to a  
21 much better start, I also want to -- this time I'll throw a  
22 little cold water on things in terms of understanding that  
23 we're also heading into CP2-3 is in Kings County. And so  
24 we anticipate issues there and we know regularly that  
25 litigants are encouraging property owners not to cooperate

1 with the right-of-way process. That's only going to have  
2 one impact ultimately, which is ironically forcing more  
3 people into the eminent domain process which I don't think  
4 is where anybody wants to go.

5 But that is a big part of the impact that we are  
6 mitigating and working to manage with the contractor, is  
7 that front-end delay caused by that initial delay through  
8 the litigation process. But it's a constant process now to  
9 make sure we understand what those impacts are, that we  
10 manage them. And we are moving forward with them and I  
11 think the right-of-way team is performing extremely well  
12 against some of those odds.

13 We still have challenges. We need to continue  
14 and always improve how we're doing this, but we have now  
15 delivered close to 50 percent of the parcels in CP1. And  
16 that's a very positive piece of progress and based on that,  
17 we will see the bulk of work underway by the end of the  
18 year on CP1. And that translates into jobs, economic  
19 activity, all of the things that this program is supposed  
20 to do at the front end.

21 CHAIRMAN RICHARD: Thank you. And without  
22 getting too much into the under-the-hood stuff I know that  
23 the external factors have been really important. I think  
24 that you also identified some internal factors and have  
25 devoted some management time to making sure that our

1 processes on our side are as up-to-snuff as they should.  
2 And I just want to also take a moment to thank my  
3 colleagues, Mike Rossi and Tom Richards, who in reviewing  
4 the right-of-way as part of the Finance and Audit Committee  
5 work, have worked with staff, to really understand what was  
6 behind a lot of these factors. But I think there's a high  
7 degree of confidence now that this is on the right track.

8           And I would just share your comments that when we  
9 started out on this, I remember -- I think our stated goal  
10 was not to be unrealistic -- but that we would in  
11 compliance with the law make fair offers for people for  
12 their property. And that our goal was to avoid eminent  
13 domain and to have bilateral negotiations.

14           And as you said, unfortunately some people have  
15 been using this process as a way to essentially force that.  
16 So we've been forced to go the Department of Finance and  
17 the Public Works Board, all of which takes time, even  
18 though they've been as cooperative as I think they could  
19 be.

20           CHIEF EXECUTIVE OFFICER MORALES: And just  
21 quickly on that point, I think it's worth noting of the 430  
22 some odd parcels that have been delivered, none of them has  
23 gone through the eminent domain process. So we have worked  
24 very, very diligently. And I think that also shows that in  
25 fact the appraisals that are being done the offers that are

1 being made are in fact fair. And if the process can play  
2 out well, we would hope to continue down a successful path.

3 CHAIRMAN RICHARD: And just one last point on  
4 this is that even if we start a process of eminent domain  
5 it doesn't mean that it has to go all the way through to a  
6 court proceeding. People can, at any point, choose to have  
7 a bilateral negotiation, which we certainly would  
8 encourage.

9 So, okay thank you, Mr. Morales.

10 And Mr. Tapping, we've heard that Russ Fong's on  
11 top of the numbers and Paula's clearly doing the audits in  
12 a good way and Scott just gave an excellent presentation  
13 this. So it looks to me like if things screw up it's on  
14 you.

15 (Laughter.)

16 MR. TAPPING: Well, I would -- it's a team  
17 effort, let me put it that way, which brings me to my first  
18 slide actually.

19 Really the approach we're taking in the risk  
20 management is it's kind of a -- you saw my team, our team,  
21 present really aspects of our Management structure.  
22 Basically, it's a four-legged Management stool I like to  
23 think of it. We have the financial performance  
24 perspective, which Russ reported on. Kind of ongoing  
25 efforts, it's an ongoing. We have Audit and Reviews that

1 Paula presented on and that's based on ongoing work and  
2 also doing forensic looks at processes and procedures. And  
3 Scott reported on a lot of metrics involving contract  
4 performance. So where risk management really comes in, it  
5 comes in and it kind of wraps all that together and is a  
6 forward-looking approach. It looks at the risks and  
7 uncertainties going forward and how that might affect the  
8 program.

9           So it's really, I think, a robust management  
10 system through the Finance and Audit Committee that we  
11 report up to.

12           BOARD MEMBER ROSSI: Did you say "robust" or  
13 "bust"?

14           CHAIRMAN RICHARD: He said robust.

15           BOARD MEMBER ROSSI: Robust, okay.

16           CHAIRMAN RICHARD: You may have in a Freudian  
17 sense thought and heard --

18           MR. TAPPING: I'm still working on a joke, that  
19 wasn't it Mike.

20           BOARD MEMBER ROSSI: That wasn't it, okay.

21           MR. TAPPING: I won't belabor the requirements  
22 that we have under Senate Bill 1029, but it is a thorough  
23 risk management process. I think the important thing to  
24 note here is it is continuous. It's not a one-time thing  
25 where we assess a contingency amount. We update that at

1 least on a quarterly basis and we update projections  
2 accordingly.

3           Also, while not expressly stated in the  
4 requirements the big pieces about risk management is moving  
5 forward and mitigating the risks and through all of the  
6 process what you can focus on, the biggest bang for your  
7 buck as you move forward. So really mitigating the risk is  
8 the whole purpose as we go forward.

9           Very quickly, these are some of our objectives.  
10 You may have seen these before, but I like to reinforce  
11 them. Number one, we have a very disciplined approach  
12 that's dynamic, it's well defined.

13           Transparency, we've talked about some of our  
14 risks today. Scott talked about right-of-way, third party  
15 agreements, environmental -- those are all fairly high up  
16 on our risk register. So to the extent that all the  
17 stakeholders are aware of that, are aware that there's  
18 range of costs associated with that, that's good for the  
19 project. And I think it's good overall for stakeholder  
20 involvement and understanding of the project.

21           Again, we are bound to report our Risk Management  
22 Program and results through the Legislature and we do that  
23 on a regular basis. I talked about mitigating risk. A big  
24 part about coming up with risk mitigations is also you can  
25 prioritize where you allocate your resources. For example,

1 right-of-way is a great example of where we've beefed up  
2 our resourced based on some risk analysis that we've done.

3 We've also worked to validate our approach with  
4 the Legislature's Peer Review Group. But we've done some  
5 innovate work as well with Professor Flyvbjerg from Oxford  
6 University in terms of alternate approaches and looking at  
7 contingencies.

8 So I just wanted to go through the quick steps of  
9 risk management. There's five steps, again it's a  
10 disciplined process. The little pictures below, I know  
11 they're little but they're basically schematics of each one  
12 of the steps and I'll go through the examples very quickly.

13 The one at the bottom left is typically what you  
14 call risk register. So we have a risk register with  
15 hundreds of risks on it at the program and project level.  
16 And we update that on a quarterly basis at least.

17 One at the top left is basically a heat map. You  
18 can prioritize your risk based on high, medium, low. You  
19 look at your probabilities and impacts, so it's a great  
20 management tool in order to prioritize your risks.

21 If you look on the upper right, we've taken the  
22 innovative approach of allocating risk actually in our  
23 contracts, our design-build contracts, looking at of the  
24 risk in the risk register. And discussing who is most  
25 appropriate to manage that risk whether it be right-of-way,

1 environmental compliance. And so we actually, as we go  
2 forward, enhance our contracts, our design-build contracts  
3 and allocate risks in the most effective way. And a lot of  
4 this is done through one-on-one meetings with our proposers  
5 and such. So that's kind of an innovative thing that we've  
6 done.

7           We've also done a scheduled risk analysis, the  
8 lower right shows a typical fragnet (phonetic) on a  
9 critical path schedule. We insert uncertainties and risks  
10 and we're doing a number of these analyses, which I can  
11 demonstrate in a future slide.

12           The question came up contingency management. And  
13 we have a very methodical and disciplined approach to  
14 looking at contingency. In general, here we have basically  
15 a contingency management tool that we're looking at CP1 and  
16 CP2-3. What we do here is we look at our risks register  
17 and our quantification of risk as we go through major  
18 milestones in the project. If you look at horizontal  
19 access, they're basically major milestones of the project.

20           For example, if you get out of the ground and  
21 you're building your bridges then you can either retire  
22 risk of a differing site condition or you may have realized  
23 a risk and you can quantify it.

24           So basically, we have a contingency floor, which  
25 is based upon federal transportation guidance and that is

1 the light-colored blue. And you can see the red, the  
2 dashed red is the projected available contingency, again  
3 based on a mean risk. All of these numbers will have some  
4 uncertainty to them.

5 So what this suggests is on CP1 you can see where  
6 the dash line begins to go under, into the ceiling is that  
7 we should do a reassessment of the cost and schedule risk  
8 for that project. So in fact, we have done that  
9 reassessment and as Scott alluded to, we still are  
10 confident in the contingency that assigned to the project.  
11 But it does suggest that we need to continually update the  
12 risk assessment at major milestones in the project. And  
13 that's exactly what we're doing.

14 CP2-3 below you can see it's quite early in the  
15 project. And Scott was correct in it does have a different  
16 risk profile, that some of the railroad risks were higher.  
17 But also we did take a higher level of confidence in  
18 assigning that contingency as we discussed with the Finance  
19 and Audit Committee and the Board. It's a 90 percent  
20 confidence level.

21 So again, major milestones this would suggest  
22 that we wouldn't do a reassessment until perhaps three-  
23 quarters of the way through the project. But again, as  
24 things develop and other risks are identified I, in  
25 general, like to update at least quarterly on every project

1 we do.

2           This is just a list of ongoing risk analyses.  
3 You may remember, we have a CP2-3 contingency assigned  
4 using a risk approach. We've performed a CP1 cost and  
5 schedule risk update. We are going to update it again in  
6 November based on the latest right-of-way numbers and so  
7 forth.

8           We have done a right-of-way schedule risk  
9 analysis, which actually feeds into the CP1 cost and  
10 schedule analysis.

11           We have an ongoing environmental segment schedule  
12 risk analysis.

13           We have an ongoing third party schedule risk  
14 analysis.

15           We will be doing a CP4 risk-informed contingency  
16 analysis much like we did with 1, 2 and 3. And we're also  
17 involved in the ridership and revenue analyses currently  
18 ongoing looking at uncertainties in that analysis and  
19 looking at mitigation efforts there.

20           So let's see, yeah I just wanted to stress here  
21 that you can see where we're focusing a lot of these risk  
22 analyses are in some of these things that Scott mentioned  
23 that have come up and were actually identified in the  
24 contingency in earlier risk analyses. But we're updating  
25 them as we go through the project. So it's a continuous

1 process is what I like to stress.

2 Just in summary, again I think it's an excellent  
3 team that reports up through the Finance and Audit  
4 Committee. I like to think of it as that four-legged  
5 management team. So with that I'll take any questions.

6 CHAIRMAN RICHARD: Very good, questions for  
7 Mr. Tapping? Ms. Selby?

8 VICE CHAIR SELBY: Thank you very much for this  
9 report. It's wonderful. I have wondered and never asked  
10 the question, back to the CP1 Contract Contingency Report,  
11 what happens when you do your reassessment? What is the --  
12 you know, because I see at the end of the day the way that  
13 it looks now we're still above zero, right? We're at ten  
14 even in the red line, so what exactly happens in this  
15 quarterly reassessment?

16 MR. TAPPING: A workshop is conducted and the  
17 risk register is brought out. The mechanics, everyone sits  
18 in the room and we have cross-functional people in the  
19 room, so its' not just, for example, construction or  
20 design. And then there is basically you look at each of  
21 the risks associated with the project and you look at  
22 estimates or for an optimistic, pessimistic, most likely.

23 For example, you look at right-of-way -- for  
24 example, is what's our optimistic value if we do that -- if  
25 you saw Scott's presentation on the forecast, which is the

1 optimistic line. You know, how are we doing against that?  
2 And then you come to consensus about how you're doing  
3 against that and you input it. So you do this with each of  
4 your risks, so you may have 50 risks on CP1. And with all  
5 this information and then you run the simulation, which  
6 then gives you the curves that I showed and a probability  
7 of meeting, for example, a cost or a budget of the  
8 contingency.

9           So it will tell you whether there's pressure,  
10 whether there's a less confidence level on the contingency  
11 than you had when you started or greater. And it's  
12 dynamic. You know, it may be less and then we would raise  
13 it to the Finance and Audit Committee for potential -- with  
14 a recommendation potentially. Do we want to change the  
15 contingency? Do we want to reallocate the budget? Those  
16 are things that we would report to the Finance and Audit  
17 Committee.

18           VICE CHAIR SELBY: And so the next trigger is  
19 that -- because right now we're sort of at the line, let's  
20 say. But then there's a 90 percent design; is that what  
21 that is? The 90 percent?

22           MR. TAPPING: Correct.

23           VICE CHAIR SELBY: And then there's 75 percent of  
24 the right-of-way, those two points there?

25           MR. TAPPING: Yeah, those are just guidelines.

1 You know, to be honest --

2 VICE CHAIR SELBY: Yeah, these are not  
3 (indiscernible)

4 MR. TAPPING: -- we've been continually updating  
5 the analysis.

6 VICE CHAIR SELBY: Okay.

7 MR. TAPPING: Yeah.

8 VICE CHAIR SELBY: Thank you.

9 MR. TAPPING: And the next one is November.

10 VICE CHAIR SELBY: November?

11 MR. TAPPING: Next month.

12 CHAIRMAN RICHARD: Any other questions, Ms.  
13 Selby?

14 VICE CHAIR SELBY: (No audible response.)

15 CHAIRMAN RICHARD: Mr. Curtin?

16 BOARD MEMBER CURTIN: I just want to ask a  
17 question about the third party agreement. I see you have a  
18 scheduled analysis coming up. My assumption is that the  
19 same approach on a third party agreement as the right-of-  
20 way, you get the ones in the critical packages. Do they  
21 inherently have the same level of risk as the right-of-way.  
22 Is there anything that you're looking at that might cause a  
23 delay or are they just more procedural?

24 MR. TAPPING: It's getting to the agreements and  
25 the agreements in time to meet the contractors' schedule.

1 And in our preliminary assessment, and Scott reported on  
2 it, we are looking good in terms of getting those  
3 agreements in a timely manner.

4 BOARD MEMBER CURTIN: Yeah, there's a few  
5 outstanding and that's what I was wondering, is are there  
6 any outstanding that might add significant risk. Because  
7 you mentioned like the legal issues Jeff had talked about  
8 on right-of-way, people have more of a -- I don't want to  
9 say a political point of view -- but do you find that in  
10 the third party agreements?

11 MR. TAPPING: Yeah, they're all different and  
12 maybe Scott could talk to the specifics, but particularly  
13 the railroad agreements have been challenging.

14 BOARD MEMBER CURTIN: Railroad in particular,  
15 that's what I was looking at.

16 MR. TAPPING: And continue to be one of our most  
17 uncertain risks.

18 BOARD MEMBER CURTIN: Okay. But do you see  
19 anything out there -- I know this is speculative -- but  
20 that might --

21 MR. TAPPING: No.

22 CHAIRMAN RICHARD: Did you want to say something?

23 CHIEF EXECUTIVE OFFICER MORALES: I was just  
24 going to say the biggest issue common, I think, across the  
25 third party agreements is getting them to work to our

1 schedule. Because this is primarily work that they're  
2 doing or that we're having to do to accommodate our program  
3 as opposed to something that's a direct benefit of them.

4 BOARD MEMBER CURTIN: Do we have any incentives  
5 to encourage that?

6 CHIEF EXECUTIVE OFFICER MORALES: Not directly,  
7 although in some cases we're able to improve some things.  
8 With the railroads, for instance, we can create -- you  
9 know, they're getting the benefit of grade separations as a  
10 result of our program.

11 BOARD MEMBER CURTIN: Okay.

12 CHIEF EXECUTIVE OFFICER MORALES: That doesn't  
13 always act as the level of incentive one might think --

14 BOARD MEMBER CURTIN: That you might think,  
15 right?

16 CHAIRMAN RICHARD: So it seems like there's two  
17 real issues here, if I understood listening to your  
18 question. One is what is the risk that these agreements  
19 won't be signed in a timely fashion or --

20 BOARD MEMBER CURTIN: Or is there some  
21 fundamentally more -- deeper problem?

22 CHAIRMAN RICHARD: And then the other is as you  
23 manage that third party contract, as Mr. Morales was  
24 saying, what are the risks that they're essentially not  
25 delivering on their side?

1           And some of us who've worked at utility  
2 companies, I suppose might have thoughts on that, but I  
3 won't share.

4           BOARD MEMBER CURTIN: Put up your hands all those  
5 of you who (indiscernible)

6           CHAIRMAN RICHARD: Okay. Other questions? Yeah,  
7 Mr. Richards?

8           VICE CHAIR RICHARDS: I was just going to echo  
9 something that Jon said a moment ago or a few minutes ago  
10 and that is that we've really got a good team. I'd say  
11 that we've got a great team. The level of reporting -- and  
12 we've said this before, but the level of reporting that we  
13 see up here and that the public has access to -- I think is  
14 as good or better than anywhere you could find in  
15 government. And I think it is a direct reflection on the  
16 leadership in the various parts of Finance and Oversight  
17 and including what we're looking at a lot now, with Mark in  
18 Environmental also.

19           So I think, as much as you can in a complex  
20 project like this, it should give all of us up here and the  
21 public in general a level of confidence in the information  
22 that's being presented. It may not always be what we want  
23 to hear, but a level of comfort in that information that we  
24 can sleep a little bit better at night. So I would thank  
25 all of you for the hard work, because it takes an

1 inordinate amount of time.

2 CHAIRMAN RICHARD: Yeah, that's very well said.  
3 And I was going to make a similar comment, but I don't  
4 think I could say as my colleague just did.

5 VICE CHAIR RICHARDS: Well, I don't know, but I  
6 would also say something that doesn't get said, but right  
7 along with that team and as much as you're kind enough to  
8 include me in your comments about F&A, Mike Rossi might as  
9 well have his office at the High Speed Rail offices,  
10 because that's about how much time he's there.

11 CHAIRMAN RICHARD: You're not suggesting that are  
12 you?

13 (Colloquy between Board Members and Staff.)

14 BOARD MEMBER ROSSI: But I would -- and I would  
15 echo everything that Tom said about the team including the  
16 efforts of all up and down the organization. But one thing  
17 I would like to say about these reports and contingencies  
18 and Monte Carlo or probability analysis, is that we should  
19 expect to see reports where we don't hit budget. We don't  
20 hit plan. Where we are going to have contingency numbers  
21 on a percentage basis that will fall below the 16 percent  
22 or whatever the number is, as you work through the life  
23 cycle of this type of project. And we should not get  
24 terribly concerned about momentary blips. We should always  
25 be looking for systematic problems.

1           And I think that this management team, this  
2 finance team, this risk management team clearly understands  
3 that. That doesn't mean we shouldn't be concerned if we  
4 hit the red line or the green -- I mean we've got so many  
5 colors, whatever the color is -- that the world's going to  
6 end. The reason that these reports are important and this  
7 team is so good, is that it is an early warning system that  
8 allows us to adjust course as required.

9           I mean, one of the things that I was listening to  
10 as we were talking about the contingency that Thea brought  
11 up, let us not forget we have a budget that is larger than  
12 this number. And the budget, what the bid is versus what  
13 we budgeted this for, is probably more than two times the  
14 contingency number. You don't want to forget that this  
15 plan was built in a way to try and take advantage of  
16 everything (indiscernible) Flyburg (phonetic) or whatever  
17 that guy's name is --

18           CHAIRMAN RICHARD: Flyvbjerg.

19           BOARD MEMBER ROSSI: -- Flyvbjerg wrote about, I  
20 mean people learn their lessons. And so or you look at a 3  
21 percent inflation rate, which is clearly not where we've  
22 been. And so there are all kinds of places, the way this  
23 plan has been built, to allow us potential for adjusting  
24 course when things don't go as we had hoped they would go.  
25 And we should not lose sight of that fact, nor should we

1 get terribly nervous if a certain projection is breached.

2           The question is, is this a systemic problem we  
3 have and is it greater than all of the fail safes we built  
4 into the program? I don't think we should ever lose sight  
5 of that, because it's too easy to see a headline in the  
6 L.A. Times predicated on not understanding how all of these  
7 pieces work.

8           So that's my speech for the day. Thank you very  
9 much, Jon.

10           CHAIRMAN RICHARD: That's good.

11           MR. TAPPING: Thank you.

12           CHAIRMAN RICHARD: And, you know, just it's been  
13 well said by my colleagues, but I would just add -- just  
14 emphasize one other point that Tom Richards made. Well,  
15 and actually a point that Jon Tapping made. This is a very  
16 transparent process, which is appropriate. I mean, we are  
17 after all building the largest infrastructure project in  
18 the United States.

19           And there've been a lot of infrastructure  
20 projects that have gone awry, but I try to keep in mind  
21 something that my friend, Brian Kelly -- the State  
22 Transportation Secretary who is a member of legislative  
23 staff and now the Administration lived through the Bay  
24 Bridge stuff -- which he said his sense is that the public  
25 expects that these large, complex projects are going to

1 have problems. What they want to see is what people are  
2 doing about it.

3           And I think that through the Committee's work and  
4 working with the staff an excellent, easily understandable  
5 set of metrics has been developed. So that any member of  
6 the public can go on our website, they can access this  
7 information, there are quarterly briefings to the Board.  
8 And again, I think the information is laid out in a way  
9 that is easily understandable by people. They can see what  
10 our projects are, how we're tracking against budgets and  
11 timelines.

12           And then we on the Board, have to react to those  
13 early warning signals and make sure that we're working with  
14 staff, as Mike Rossi just said, to see if it's a blip or  
15 it's something more systemic that has to be addressed. So  
16 not to say there's not going to be problems, because there  
17 will be, but I just can't imagine that there is a public  
18 infrastructure project anywhere in America that has the  
19 level of sophistication that we've built up here in terms  
20 of the risk management tools, the auditing functions and so  
21 forth.

22           And some of my colleagues, Ms. Schenk for  
23 example, sit on public and private boards as directors.  
24 And I'd be surprised if some of them reached this level of  
25 sophistication too.

1 BOARD MEMBER SCHENK: We do.

2 CHAIRMAN RICHARD: Well, that's good.

3 BOARD MEMBER SCHENK: I chair the Risk Committee.

4 CHAIRMAN RICHARD: You chair the Risk Committee,  
5 so you know. I mean, this is bringing corporate style risk  
6 management to a government project, which is highly  
7 unusual. And so anyway enough of that, but thank you all  
8 for excellent work on this. And the staff did a good job  
9 in laying this out, and keep doing it, so thanks.

10 Okay. Item two is the CM Contract?

11 MR. JARVIS: Yes.

12 CHAIRMAN RICHARD: Welcome back.

13 MR. JARVIS: Thank you. Good morning, again.

14 So in June of this year the Board approved a  
15 resolution to issue an RFQ to procure a project and  
16 construction management firm services for CP4 in the  
17 contract compensation range of \$28 million to \$33 million.

18 And so later in June, the Authority issued that  
19 RFQ and now we are here to seek the Board's approval to  
20 enter into a contract for PCM services for CP4. And CP4  
21 extends -- it's about 22 miles long -- through the Central  
22 Valley from the southern limit of CP2-3 to Poplar Avenue,  
23 which is several miles north of Bakersfield.

24 So the purpose of the PCM services contract is to  
25 manage the CP4 design-build contract. And under the

1 direction and support of the Authority and it's Rail  
2 Delivery Partner. Additionally, independent checking  
3 engineer and independent site engineer services related to  
4 assuring the quality of the design-builder's design and  
5 construction work will be provided by a subcontractor  
6 through the PCM contract.

7           So the PCM has that overall responsibility for  
8 the day-to-day oversight of the CP4 design-builder. So  
9 some of the details of that, the services include project  
10 management and administration, project controls and risk  
11 management, and oversight of the design-builder's design  
12 and construction activities including safety and security,  
13 engineering, environmental compliance, third party  
14 agreements and public outreach. So it's a very broad scope  
15 contract.

16           BOARD MEMBER ROSSI: Is it any different than  
17 CP1?

18           MR. JARVIS: No, it's not. It's very similar.

19           BOARD MEMBER ROSSI: Is it different than CP2-3?

20           MR. JARVIS: No, very similar. Yep, very  
21 similar.

22           BOARD MEMBER ROSSI: Thank you.

23           MR. JARVIS: Yeah, so there'll be no -- just to  
24 clarify there's no duplication of services between those  
25 provided by the PCM and the RDP. The RDP's scope does not

1 include managing individual design build contracts. The  
2 RDP's role is for uniform practices and procedures for the  
3 three design-build contracts in the Central Valley. And  
4 the RDP ensures that those program-level requirements and  
5 interfaces are addressed in the management of those  
6 contracts and our entire program.

7           So for the RFQ process itself, the RFQ was issued  
8 on June 11th, went through the Statement of Qualifications  
9 process. Selection was made under the guidance of the  
10 Chief Financial Officer and so there were four main areas  
11 that were looked at in the Statement of Qualifications.  
12 Past performance and experience, organization and key  
13 personnel, understanding of project requirements and small  
14 business participation.

15           So through that process three of the four were  
16 short-listed and then were invited to interview and  
17 discussions. And so the interview discussion consisted of  
18 presentation by each offer followed by questions and  
19 answers. And the memo describes the criteria that was  
20 included, which was included in the RFQ.

21           So after the entire evaluation process was  
22 completed the final scores and rankings were completed and  
23 that's described in the Board memo as well. And HNTB  
24 Corporation came out as the top-ranked team.

25           So the negotiations with HNTB, they've been

1 successfully completed. And an agreement at a contract  
2 price of approximately \$30 million has been reached. The  
3 contract issued for these services does include the Board-  
4 adopted 30 percent small and disadvantaged business goal.  
5 And so HNTB has established an overall SBE participation  
6 compliance goal of 33.7 percent. And that includes 15  
7 experienced SBE, DBE and DBVE firms, 5 of which are  
8 headquartered in the Bakersfield area. So there's  
9 definitely a local flair there.

10           So staff and the Chief Executive Officer, we  
11 recommend that the Board approve awarding the PCM services  
12 contract for CP4 to HNTB.

13           And just a little bit about HNTB, they're a  
14 national infrastructure industry leader in planning,  
15 designing and managing rail and other transportation  
16 projects. They've been in business for more than 100  
17 years. HNTB is a top-ranked construction management firm  
18 and it has provided these services to projects with a  
19 combined value of more than \$15 billion over the last 10  
20 years. So they have extensive design-build experience, not  
21 only as the construction manager, but also as the lead  
22 designer.

23           They also have had previous experience with the  
24 High Speed Rail Program as a regional consultant for the  
25 San Francisco to San Jose section. And HNTB has seven

1 major offices located throughout California.

2           So therefore it is to recommend that the Board  
3 adopt this resolution approving aware of the PCM services  
4 contract for CP4 to HNTB Corporation in the amount of \$30,  
5 064,017 for approximately five years. And that includes a  
6 term of one year past substantial completion and that  
7 allows for any contract closeout activities that could be  
8 necessary during that year.

9           So I would be happy to take any questions that  
10 you might have.

11           CHAIRMAN RICHARD: Questions for Mr. Jarvis?  
12 Ms. Schenk?

13           BOARD MEMBER SCHENK: Well, it just should be  
14 pointed out that we did receive individual briefings that  
15 were very good, over the course of the past week. So a lot  
16 of the questions we had were individually.

17           CHAIRMAN RICHARD: Okay, good.

18           And I just had two quick things.

19           MR. JARVIS: Yes?

20           CHAIRMAN RICHARD: I know -- I can understand why  
21 you wanted to give a crisp answer to Mr. Rossi, so he  
22 wouldn't ask any more questions, but I thought we made some  
23 change in the Quality Assurance-Quality Control scope of  
24 work between the construction management for CP1 and CP2-3?

25           CHIEF EXECUTIVE OFFICER MORALES: Correct. We

1 had in CP1 the independent checking engineer and an  
2 independent --

3 MR. JARVIS: Site.

4 CHIEF EXECUTIVE OFFICER MORALES: -- site  
5 engineer, yes, were actually in the design-builder scope.

6 CHAIRMAN RICHARD: Right.

7 MR. JARVIS: Correct.

8 CHIEF EXECUTIVE OFFICER MORALES: We shifted that  
9 into the PCM and that's --

10 CHAIRMAN RICHARD: Into the PCM for CP2-3.

11 CHIEF EXECUTIVE OFFICER MORALES: -- for 2-3 and  
12 now this one.

13 CHAIRMAN RICHARD: Right, okay. And that's an  
14 important function.

15 BOARD MEMBER ROSSI: So it is the same as 2-3?

16 MR. JARVIS: Right.

17 BOARD MEMBER ROSSI: Oh, okay.

18 (Colloquy between Board and staff.)

19 CHAIRMAN RICHARD: Okay. And since I have Mr.  
20 Rossi's attention I just want to point out that we worked  
21 with HNTB when I was on the BART Board.

22 I just have one other question, which is we -- I  
23 should have asked this back in June when we approved the  
24 RFQ, but as I was reading this I thought, "You know, I  
25 should just ask some time how do we come up with these

1 numbers like 28 to 32 when we go out on this?" I mean,  
2 how? Do we do a bottoms up, build up of what we think the  
3 hours are going to be and all that or is it just --

4 MR. JARVIS: It's really more of a tops down.

5 CHAIRMAN RICHARD: Is there some dart board  
6 somewhere that you guys use?

7 MR. JARVIS: Yeah, I mean we start with a -- no  
8 there is not a dart board. No, no, no dart board. We  
9 start with a rough 6 percent for (indiscernible)  
10 construction costs.

11 CHAIRMAN RICHARD: An index against the  
12 construction project?

13 MR. JARVIS: Yeah, yeah. Compare that against  
14 the engineer's estimate, so that's a starting point. And  
15 then we'll drill down and look at the scope of work, look  
16 at the project itself. Is there some magnitude of  
17 efficiencies, because of the scale of the project? But  
18 generally it's a little bit more of a tops down and then we  
19 do look at the particulars of the project and refine it  
20 from there.

21 CHAIRMAN RICHARD: Okay.

22 CHIEF EXECUTIVE OFFICER MORALES: And just on the  
23 issue of price -- just also to clarify that federal law --  
24 the Brooks Act, which I think goes back to the '70s,  
25 specifically says architectural and engineering contracts

1 have to be qualifications based competitions, not price  
2 based. And so that's why you see a negotiated price as  
3 opposed to a low bid type.

4 CHAIRMAN RICHARD: Right, right.

5 CHIEF EXECUTIVE OFFICER MORALES: It's the RFQ  
6 process and then that's the pricing mechanism.

7 CHAIRMAN RICHARD: Okay. And then just before I  
8 recognize Ms. Selby -- I know this is close to Mr. Correa's  
9 heart from all the work he's done -- but you mentioned  
10 quite appropriately that this contract includes the Board-  
11 adopted policy of the 30 percent goal for small businesses.

12 MR. JARVIS: Correct.

13 CHAIRMAN RICHARD: And I confirmed with Mr.  
14 Morales that it also includes the 3 percent sub-goal for  
15 disabled veteran businesses.

16 MR. JARVIS: That's correct.

17 CHAIRMAN RICHARD: Okay. So I just wanted to  
18 make sure that that's out there.

19 So Ms. Selby and then Mr. Richards.

20 VICE CHAIR SELBY: Yeah, this is having to do  
21 with the qualifications. I was wondering if you can  
22 explain how the qualification of familiarity with the  
23 project -- what's the definition? How do you get points on  
24 that one?

25 MR. JARVIS: Well, really that shows the homework

1 that they've done so to speak. Have they gone out and have  
2 they discussed the project with various local agencies and  
3 third parties, for example. Are they bringing good ideas  
4 to the table in their oversight role as the PCM? Do they  
5 really show that they understand the project, they  
6 understand the critical path of the project, they  
7 understand what's important to the Authority in  
8 administering the project, because they are our eyes and  
9 ears.

10           You know, we have a very lean staff. And so  
11 through that process we get a feel if they really are  
12 familiar with the project and if they've done the work, as  
13 the eyes and ears and as the representative of the  
14 Authority, to administer the contract. And enforce and  
15 emphasize the facets of the contract and the project that  
16 are important to us.

17           VICE CHAIR SELBY: And so how would -- I don't  
18 know if you can quantify this, but is it really, really  
19 important that somebody -- that you've worked with somebody  
20 on this project before?

21           MR. JARVIS: No. It's not so much that we've  
22 worked with them, but it's familiarity of the project in  
23 the sense that the work that the firm has done -- whether  
24 they've worked on the High Speed Rail Program in the past  
25 or not. That's not what's important. What's important is

1 showing that they're knowledgeable about the project based  
2 upon the work that they've done in preparing as our PCM  
3 firm.

4 VICE CHAIR SELBY: Thank you.

5 CHIEF EXECUTIVE OFFICER MORALES: And if that  
6 familiarity translates into the kind of people they're  
7 bringing on the project, the areas that they emphasize as  
8 focal points for them in managing. It's really how they  
9 would handle their responsibilities.

10 MR. JARVIS: Correct.

11 CHAIRMAN RICHARD: Okay. I'm sorry.

12 VICE CHAIR RICHARDS: I'll just do a very quick  
13 question. I was just interested if you would just --  
14 Scott, if you'd just give us an idea of so we had a range  
15 of 28 to 33 and we ended up at 30 plus change. So what  
16 happened in that process when you were within architecture  
17 and engineering, as this is, how did we end up at that  
18 number?

19 MR. JARVIS: Well, Diana Gomez was our lead for  
20 negotiations. I actually was not on the negotiation team.

21 CHAIRMAN RICHARD: So you're saying the right  
22 number should have been 28?

23 MR. JARVIS: Yeah. So I mean I'm sure she could  
24 probably elaborate, because I wouldn't be able to give a  
25 knowledgeable answer, because I wasn't on the negotiation

1 team, so.

2 MS. GOMEZ: Hello. So as part of the negotiation  
3 team, the winning team, well actually all the teams are  
4 required to submit the proposals and they're closed until  
5 we are done with the scoring.

6 And so as part of the proposals are the staffing  
7 for all the different tasks and then their direct costs.  
8 So you have that range, because in terms of the staffing  
9 everybody has a different hourly rate, a range of wages, so  
10 they can vary and then depending also on the hours of each  
11 respective task.

12 And then also the range comes in with the fees  
13 and the escalation and the overhead that each respective  
14 company has. So that's where you would see the big range  
15 in the direct -- in the actual wages and salaries.

16 And then in direct costs it depends on what we've  
17 negotiated in terms of travel, in terms of equipment, in  
18 terms of vehicles. So that's once we have that entire cost  
19 proposal.

20 So when we're estimating in the beginning, we  
21 estimate what we think where we would have the hours and  
22 based on a certain amount of wages that we have, history,  
23 so we came up with that range. So and --

24 VICE CHAIR RICHARDS: The 23 to 33 range?

25 MS. GOMEZ: Correct.

1           VICE CHAIR RICHARDS: But the negotiation you  
2 referred, that we negotiated this number, that was  
3 negotiating primarily the vehicle equipment and the --

4           MS. GOMEZ: And salaries, so it was based on the  
5 actual individuals working, that would be working on the  
6 project. And then the direct cost, which is the vehicles  
7 and the travel and equipment.

8           VICE CHAIR RICHARDS: Okay. Thank you.

9           CHAIRMAN RICHARD: Mr. Curtin, did you have a  
10 question?

11          BOARD MEMBER CURTIN: Yeah, I do.

12          I gather -- Jeff indicated that there's some sort  
13 of federal law and I know there's some state law around  
14 this, but I'm wondering if it precludes any bidding process  
15 after a qualification process, because it seems less  
16 transparent. And from the public's point of view, it would  
17 seem to me it's hard to explain how these are decided upon.

18          I mean, certainly for us I'd like to have more  
19 information regarding the qualifications and interview and  
20 how it's decided. You know, the weighting of each, because  
21 last time we issued a very large contract and understanding  
22 of the project requirements was around 30 percent. And  
23 there's a lot of wiggle room in those things. And this can  
24 lead -- it can clearly lead to some concerns, either in the  
25 public or the press or whatever.

1           So I'm wondering if we could take a look at  
2 whether we are precluded from, once we prequalify then  
3 asking for a bidding process. Because I noticed in the  
4 packet was a report to Diana Gomez that went over the  
5 things she just said, and it's pretty incredible. It's  
6 extensive. There's a lot of costs built into this by the  
7 firms. And it's even noted in here the cost of an iPad.

8           I mean, it's hard for me to believe that we would  
9 actually get to that level of review to see if they're  
10 using their iPads properly or they're overcharging us for  
11 their iPads. You know, when a carpenter goes on the job he  
12 doesn't write off the cost of his hammer in the process.

13 And it just seems to me that there's a certain think  
14 regarding professional services that could be looked into.

15           And my thought here is we give them a framework,  
16 \$28 to \$33 million, and it's not peanuts. And if we said  
17 that you're qualified, now you three come up with a bid  
18 that we take a look at. As the low bid they might sharpen  
19 their pencils a lot more than the effort that was made by  
20 your office, which was a pretty significant effort. It  
21 went over the wages of all the employees and the vehicles  
22 and the miles traveled and cell phone use, for crying out  
23 loud.

24           I mean, this should be something that they should  
25 be working on. And I don't know if there's an answer to

1 that. And I've talked to Tom briefly about it.

2 Do you know, Jeff, if it's a mandate that there  
3 not be bidding or that it must be based on qualification  
4 and perhaps can be then bid after that?

5 CHIEF EXECUTIVE OFFICER MORALES: We can  
6 certainly come back with a report and cite what's allowed  
7 and not, but it is basically a prohibition on cost-based  
8 procurement.

9 BOARD MEMBER CURTIN: It's kind of interesting,  
10 because we're going to have a lot more of these in this  
11 process. And if we're talking the difference between 10,  
12 15, 20 percent on costs -- I looked at the miles, 22 miles.  
13 If we have an 800-mile system or whatever, we're talking  
14 \$6-700 million for these kinds of proposals. And that's  
15 \$60-70 million perhaps could be reduced just on the basis  
16 of having these qualified companies bring their own  
17 proposal in about how much they're willing to spend to work  
18 on it.

19 So I raise that, because it popped up last time.  
20 And it just made me twitch when it was a larger contract.  
21 But every time I see one of these I get a little nervous  
22 about it. It seems very -- if there's a lack of  
23 transparency, and I'm not saying that it's from the  
24 Authority, it's from the actual process and statute. It  
25 just -- the professional services don't have to go through

1 the rigorous bidding that the construction firms have to go  
2 through. And they work pretty hard in sharpening their  
3 pencils.

4 CHIEF EXECUTIVE OFFICER MORALES: It is a  
5 different process, but I also do want to clarify the Brooks  
6 Act is applied across all infrastructure credit. It's not  
7 unique, nothing about that is unique to us.

8 BOARD MEMBER CURTIN: Yeah. No, I understand.

9 CHIEF EXECUTIVE OFFICER MORALES: I just want to  
10 make sure that was clear.

11 BOARD MEMBER CURTIN: But maybe it's something  
12 that we might be able to make some noise about. And  
13 perhaps have a review, not necessarily us only, but this is  
14 something that might want to be looked at.

15 You know, we're going into different construction  
16 procedures. It's no longer simple design-bid-build. It's  
17 now design-build. It's public-private partnerships. And  
18 these kinds of services are built into those packages and  
19 they're being bid. So it's slightly different and we might  
20 want to look at it.

21 Having said that, I have no problem with the  
22 (indiscernible)

23 CHAIRMAN RICHARD: No, but I think the broader  
24 question you raise is a really good one. I appreciate you  
25 raising it.

1           MR. JARVIS: I mean, if I may elaborate, there  
2 are things that we can do on our A&E contract similar to  
3 what we did with our Rail Delivery Partner and we put a  
4 portion of their fee at risk based upon performance. So  
5 that's not based upon a low bid, but it is a more  
6 performance-based --

7           BOARD MEMBER CURTIN: Well, anything at risk I  
8 think is probably a good development.

9           MR. JARVIS: Yeah.

10          BOARD MEMBER CURTIN: But I really would like for  
11 somebody to take a look at the statute and see if there's  
12 any wiggle room in the statute. And if not, that's  
13 something that people in my profession should start taking  
14 a look at. Those statutes should be dealt with to some  
15 degree.

16                 And I can imagine the uproar that it would create  
17 if we said that you know, the professional services are no  
18 longer going to be bid based on qualifications only. Oh my  
19 god. You know, what a heart attack that would create in  
20 some --

21          CHAIRMAN RICHARD: Well, I guess the other  
22 question is for Tom, as we run through the federal money  
23 and we start looking into the future where it's Cap and  
24 Trade or other dollars, are we still subject to the Brooks  
25 Act?

1 VICE CHAIR RICHARDS: Yeah, the Brooks Act's in  
2 the state law.

3 CHAIRMAN RICHARD: Oh, it's in state law?

4 CHIEF EXECUTIVE OFFICER MORALES: Yeah, it's  
5 parallel to the state legislation.

6 CHAIRMAN RICHARD: Okay.

7 BOARD MEMBER CURTIN: Yeah, I remember running  
8 into it years ago. It didn't quite have the impact, but I  
9 see \$28 to \$33 million it starts to make a lot more sense.

10 CHAIRMAN RICHARD: A lot of iPads.

11 BOARD MEMBER CURTIN: Yeah.

12 CHAIRMAN RICHARD: A lot of iPads, okay. Well,  
13 thank you. Yeah, I think that would be good to follow up  
14 on.

15 Okay. So do we have a motion on this?

16 BOARD MEMBER ROSSI: So moved.

17 VICE CHAIR RICHARDS: Second.

18 CHAIRMAN RICHARD: Moved by Mr. Rossi, seconded  
19 by Mr. Richards. Will the Secretary please call the roll?

20 MS. NEIBEL: Director Schenk?

21 BOARD MEMBER SCHENK: Yes.

22 MS. NEIBEL: Vice Chair Richards?

23 VICE CHAIR RICHARDS: Yes.

24 MS. NEIBEL: Director Rossi?

25 BOARD MEMBER ROSSI: Yes.

1 MS. NEIBEL: Vice Chair Selby?

2 VICE CHAIR SELBY: Yes.

3 MS. NEIBEL: Director Correa?

4 BOARD MEMBER CORREA: Yes.

5 MS. NEIBEL: Director Curtin?

6 BOARD MEMBER CURTIN: Yes.

7 MS. NEIBEL: Chair Richard?

8 CHAIRMAN RICHARD: Yes.

9 Okay. Item three, Mr. Morales update on the  
10 responses to the Request for Expressions of Interest

11 CHIEF EXECUTIVE OFFICER MORALES: Okay, right.

12 Mr. Chairman and Board, I want to provide this update on  
13 the RFEI or the Request for Expressions of Interest  
14 process. What I'll do is give a little background in terms  
15 of where we are, how we got to where we are, status in  
16 terms of where we've gone in the process, what sort of  
17 things we've received. And then talk about next steps.

18 And yeah, I think to talk about the program it's  
19 important to look at this in terms of how this program has  
20 evolved and how it will continue to evolve.

21 The Commissioner, High Speed Rail Commission, was  
22 set up way back in 1996. You know, at the time there was  
23 no funding provided other than for very preliminary type  
24 activities, so this really was a planning activity. And  
25 that's how the program went along until 2008 when Prop 1A

1 was passed. November of 2008 the voters passed Prop 1A and  
2 for the first time now the State had available funds to not  
3 only do preliminary planning, but to move into  
4 construction.

5           However, those funds were conditioned among many  
6 other things on matching funds coming from some other  
7 source to match at least on a one-for-one basis. The bond  
8 funds could not be spent for construction until, and  
9 unless, they were matched at least one-for-one.

10           And at the time when Prop 1A passed there was no  
11 other source of funding. The federal government had never  
12 provided any funds for high-speed rail development. And  
13 the private sector interests, the presumption of private  
14 sector involvement, which was always there was not clearly  
15 defined or potentially even understood.

16           But then in 2008 President Obama was elected,  
17 2009 the Stimulus Act, the ARRA Fund, ARRA Program put into  
18 place, and then subsequently the next year of a federal  
19 appropriation for the first time.

20           Then the program received a source of outside  
21 funding, so that it could access the Prop 1A monies. And  
22 that came in the form ultimately of about \$3.3 or so  
23 billion in federal funds, which could be leveraged against  
24 the Prop 1A money. Meaning we could actually move now into  
25 this being a construction and a development program. And

1 those funds, of course, are the ones that got the work  
2 started in the Central Valley, but still a long way away  
3 from being able to develop the entire program, as a  
4 program.

5           In 2012, the next big step in the program was the  
6 passage of the first appropriation of the state dollars to  
7 move forward with the program. And then, hugely  
8 significant, last year the proposal from the Governor and  
9 the implementation by the Legislature of the commitment of  
10 Cap and Trade proceeds to a number of programs on an  
11 ongoing basis. Certainly for us most notably 25 percent of  
12 those proceeds going to high-speed rail development along  
13 with other funds going to Transit Rail, Affordable Housing  
14 and Sustainable Development.

15           The commitment of Cap and Trade, it was a very  
16 significant step. We'll see ultimately, exactly how it  
17 plays, but it marked a significant turning point in our  
18 interactions with the private sector. And when I talk  
19 about the private sector in this what I'm talking about are  
20 the entities that would be involved in all aspects of the  
21 program from financing, planning, design, delivery,  
22 maintenance and operation ultimately.

23           And I would characterize the discussions we had  
24 with the private sector prior to Cap and Trade as they were  
25 very interested. They saw the underlying merits of the

1 program, believed it would work, but basically said, "You  
2 know, come back to us when you're real. And come back to  
3 us when you're ready to actually talk about being able to  
4 move forward in a partnership basis."

5           The Cap and Trade vote created the beginning of  
6 that process. And our discussions with the private sector  
7 changed dramatically as a basis of that, because they now  
8 saw that California, in fact, wanted to move ahead to  
9 complete this program.

10           And so we've had, since that time, extensive  
11 discussions with the private sector about how and where  
12 they might participate, under what conditions, what we  
13 would have to do additionally in order to create the  
14 opportunity for that participation, how it might work.

15           And we took the opportunity through the RFEI  
16 process, to put some structure around those discussions.  
17 To ask them specific questions about how they thought we  
18 could most efficiently deliver the program in terms of  
19 integration of various components of it. How big a program  
20 is possible under existing financing mechanisms and given  
21 capitalization sizes and things like that.

22           And we took that step and advised the Board we  
23 were going to issue the RFEI. And I think it's a fairly  
24 unusual step for a public agency to go out and engage the  
25 private sector, the people who will help us deliver, really

1 with the intent then of giving us information and input  
2 that will help us do a better job of developing that  
3 delivery plan. And that's what the RFEI was intended to  
4 do. And we're very pleased with the process.

5           On September 28th, we received proposals from 36  
6 different entities and they're listed here before you. I  
7 think what's very noteworthy and significant is both the  
8 volume and the caliber of the respondents here. You see  
9 here this is pretty much a Who's Who of people who would be  
10 involved in big infrastructure around the world. Again, in  
11 all aspects from financing through delivery, operation and  
12 maintenance. And it's also notable that we see some very  
13 important early efforts of people coming together in teams  
14 and indicating again some of the ways that this program  
15 could be packaged.

16           We were very clear and the proposers understood  
17 this is not an actual procurement. No contract is being  
18 awarded as based on this, but the response was very, very  
19 positive, very encouraging and I think really underscores  
20 the level of interest throughout the industry, around the  
21 world, in this program.

22           You see here, just a representation of where the  
23 proposers are based in terms of their headquarter  
24 functions.

25           If we superimposed on this where they have worked

1 and delivered programs, pretty much the entire map would be  
2 colored in. Again, we've got teams who have delivered  
3 programs all over the world and who are the leading experts  
4 in doing this.

5           And among them we see a tremendous experience in  
6 infrastructure, again not just high-speed rail. Certainly,  
7 we are interested in people with high-speed rail experience  
8 and there are components of the project that unique to  
9 high-speed rail, but others that are not.

10           And so again, we see leaders in infrastructure of  
11 all sorts from around the world. And, you know, we talk  
12 about around the world, because frankly the rest of the  
13 world has been considerably ahead of the U.S. in terms of  
14 public-private partnerships, alternative delivery  
15 mechanisms. And we see a lot of the expertise coming to us  
16 in different aspects of it from around the world. So  
17 again, we're very gratified to see that experience.

18           Just then talk about next steps and where we are,  
19 because again this is a very important step, it's a  
20 promising step, but it's a step. And we will now, based on  
21 having received these -- we're still going through them --  
22 but we're going to have one-on-one meetings with all of the  
23 firms and all of the teams that submitted to make sure we  
24 understand what they suggested, what kind of questions  
25 they're raising. And we will come back to the Board, to

1 the public, to the Legislature with a summary of all that  
2 in the coming months.

3 And then the long term, and when I say long term  
4 we're not looking too far out in the future, but the intent  
5 is to then take this input as important contributions to  
6 developing the plans for how we in fact, move forward to  
7 get to an operating system of high-speed rail in California  
8 utilizing the tools that we have available to us and in  
9 partnership with the private sector.

10 So, Mr. Chairman, that's our update of where we  
11 are and I'd certainly be happy to take any questions or  
12 comments.

13 CHAIRMAN RICHARD: I did have one comment, but I  
14 want to give colleagues an opportunity to go first.

15 Mr. Curtin, did you?

16 BOARD MEMBER CURTIN: Well, I don't have any  
17 particular questions, but maybe someone could generate --  
18 but I do want to suggest that, yeah, this is one of the key  
19 turning points, because there's an awful lot of excitement  
20 and discussion and 36 responses is pretty impressive. So I  
21 want to say you guys have done a good job putting this on  
22 the table, the RFEI. The request was before I got here,  
23 but it was really a good move. And it makes it look a lot  
24 more serious than it did three months ago.

25 CHIEF EXECUTIVE OFFICER MORALES: "Yeah, we're in

1 a -- actually I've stolen a line somebody else used, which  
2 was a few years ago we went to New York to meet with all of  
3 these kinds of parties and spent about a week doing that.  
4 Since Cap and Trade passed now they're coming to see us.

5 BOARD MEMBER CURTIN: Nice.

6 CHIEF EXECUTIVE OFFICER MORALES: And again,  
7 they're not bringing a checkbook with them yet. But  
8 they're bringing their ideas, their interest. You know,  
9 their commitment to work with us and are really engaged.  
10 And I think this process will yield a better product in  
11 terms of a path forward for us as we define what we can do,  
12 when we can do it and how to do it.

13 BOARD MEMBER CORREA: A question?

14 CHAIRMAN RICHARD: Yes, Mr. Correa?

15 BOARD MEMBER CORREA: Mr. Morales, just to  
16 clarify you how many of those bidders -- how many bidders  
17 did you have, project proposals?

18 CHAIRMAN RICHARD: Respondents.

19 CHIEF EXECUTIVE OFFICER MORALES: Respondent,  
20 yeah.

21 BOARD MEMBER CORREA: Thank you.

22 CHIEF EXECUTIVE OFFICER MORALES: We've avoided  
23 using bidders, because it's not a procurement, but 36 teams  
24 respondent.

25 BOARD MEMBER CORREA: Now those, all of them to

1 build the whole project, or different stages?

2 CHIEF EXECUTIVE OFFICER MORALES: Different  
3 stages. And what we focused the questions on --

4 BOARD MEMBER CORREA: So you had some that wanted  
5 to build the whole project, and some portions of it?

6 CHIEF EXECUTIVE OFFICER MORALES: Correct. We've  
7 got a range. There are a few consortia that you see among  
8 those bidders who basically said, "Give us everything."  
9 Now again the particulars to be worked out, but that they  
10 bring the table the capacity, they believe, to deliver  
11 everything in partnership with us. Others are much more  
12 focused on specific elements. And there are some --

13 BOARD MEMBER CORREA: So what's the next step  
14 now?

15 CHIEF EXECUTIVE OFFICER MORALES: So the next  
16 step is to sit down and go through what they submitted with  
17 each team, make sure again we understand what their points  
18 are. We can have some back and forth with them.

19 One of the advantages of a process like this is  
20 because it's not an actual procurement, is we can have an  
21 ongoing dialogue and really learn from them and refine the  
22 process as we go forward. And then over the next year or  
23 so then start to shape what a large procurement or  
24 procurements toward an operating system would actually look  
25 like and be able to go out with one.

1           BOARD MEMBER CORREA: So these actual names up  
2 here, each group proposed different ways of approaching the  
3 problem, so to speak. And I've got to go back and review  
4 each one of those and determine what is best for the State  
5 of California?

6           CHIEF EXECUTIVE OFFICER MORALES: Correct.

7           BOARD MEMBER CORREA: Thank you.

8           CHAIRMAN RICHARD: Yeah, I'd just like to pick up  
9 on that, Lou, because you've hit on something that I think  
10 is important for us to clarify for the public here. And I  
11 just -- I mean this has been, I think, a remarkably  
12 successful enterprise in a lot of ways. But I just want to  
13 make sure that we're not creating expectations about what  
14 these folks are telling us.

15           I've sat down; I've read all of them now. And  
16 first of all, I think the first thing that needs to be said  
17 is, "Thank you." These are big companies that do a lot of  
18 work and they have spent a lot of time.

19           You know, there are a couple -- some of them fall  
20 in the category of, "Hey, we provide these kinds these  
21 kinds of services: signaling, track stuff. We've got a  
22 great track record around the world and you should bring us  
23 into your project." And that's perfectly fine.

24           But a lot of people have put a lot of thought  
25 into this. And coming back and saying to us -- you know,

1 answering some questions that are really going to be  
2 important questions as we go forward of how we organize  
3 this, how we break this into pieces, what things we  
4 accumulate into a single procurement and what things we  
5 keep outside of that.

6           And there are different strategies there that  
7 could lead us to either have more competition or less  
8 competition, depending. I mean, it's a balance. If you  
9 make really big contracts and you hand it to somebody to  
10 manage you reduce your risk of integration between all the  
11 different components. On the other hand you may limit  
12 yourself to just one or two big global players or teams.  
13 And so this is a balance that we're going to have to strike  
14 as we look at the best way to deliver the project  
15 physically.

16           So I would say the first aspect of this is that  
17 we've gotten a tremendous amount of thinking from the best  
18 people in the world, as to how a project like this should  
19 be phased and sequenced and delivered in the most efficient  
20 and effective way. And that's going to be very, very good.  
21 And as the staff goes through their one-on-ones they're  
22 going to have an opportunity to further explore that.

23           Then you get to the people who say that there are  
24 these techniques of public-private partnerships where  
25 somebody will front the money. And will essentially take a

1 responsibility to have the risk shifted from us to them to  
2 actually design, build, finance, operate, maintain -- and  
3 through the entire operation of the system.

4           And this has been done successfully in Europe,  
5 much less so in the United States for a lot of reasons.  
6 I've been involved in this kind of area for about ten years  
7 of my professional life. And people are coming to us  
8 saying, "This is the model that has worked other places and  
9 you could do this here."

10           But that model, we need to understand, is a  
11 financing model; it's not a funding model. It's basically  
12 taking resources we have now from Cap and Trade and saying  
13 if we want to commit those to somebody in the form of a  
14 what's called an availability payment, that they can  
15 deliver that part of the project. And they're telling us  
16 how big that could be, what the market can support and so  
17 forth.

18           The problem that I have is that in a lot of the  
19 political dialogue -- and you know this better than anybody  
20 sitting at this table -- people tend to garble up what they  
21 mean when they talk about the private sector coming in.  
22 The private sector was always going to be part of high-  
23 speed rail, either in a traditional procurement or through  
24 one of these alternative means like a public-private  
25 partnership. But when people who say that talk about the

1 private sector what they're really talking about is who's  
2 going to bring new money.

3 I mean, we've got -- as Jeff went through, we've  
4 got the bond money, we've got the federal money, we've got  
5 the Cap and Trade money. All those things together are not  
6 enough to build a \$68 billion system. So we need that  
7 other piece of money that is new money. And where does  
8 that new money come from? In large measure, it comes from  
9 the ridership revenues that are going to be generated.

10 How do you tap that? Well, this is the issue. Is  
11 when you talk to these folks the only way you tap that at  
12 this point -- and this is something I learned about five  
13 minutes after meeting Mike Rossi four years ago -- is that  
14 the only way you do that is one of two ways. Either you  
15 give them a guarantee or they see enough ridership history  
16 that they're willing to take that risk. And we're not  
17 there yet.

18 And what I'm seeing from these proposals does not  
19 put us there yet in terms of a revenue concession model  
20 that adds \$20 billion of new money that we've estimated  
21 could be supported from the projected revenues of this  
22 project. We're getting in that direction, but we're not  
23 there.

24 So I just want to be careful, because when people  
25 start to sit down and look at these, what they're going to

1 see is a tremendous response, a tremendous amount of  
2 innovation. But also an honest assessment on the part of  
3 these global players that, you know guys, you're going to  
4 need to either have some backstop for us -- which frankly  
5 we're legally limited from doing under the provisions of  
6 the Bond Act -- or we're going to have to see enough  
7 ridership history that we can then be comfortable moving  
8 forward.

9           So it is a step. I just don't want to get too  
10 far out ahead of ourselves, in what we're telling the  
11 public and ourselves, is going to be inherent in these  
12 responses at least as I've read them.

13           It still gives us a great basis for conversation  
14 and discussion, but Mike I don't know if you want to add  
15 anything to this, because I mean this is something that  
16 you've been very clear on since the beginning. It's been  
17 very helpful for me to understand it from a financing  
18 standpoint and funding.

19           BOARD MEMBER ROSSI: And I think you covered it  
20 pretty well. And I think that we have to be clearly  
21 attuned to what Jeff said. There is no proposal.

22           CHAIRMAN RICHARD: Right.

23           BOARD MEMBER ROSSI: There is no commitment to do  
24 anything other than talking, right? Nothing. It is  
25 clearly an expression of interest. And in fact in the

1 financial world when we use the term, "an Expression of  
2 Interest" these would not qualify, okay?

3 CHAIRMAN RICHARD: Because somebody is signing?

4 BOARD MEMBER ROSSI: Well, because an Expression  
5 of Interest is, "I'm willing to do A, B, C, D, E and F if  
6 X, Y and Z happen." These are not.

7 You have to look at these in I'd say two parts,  
8 Jeff, maybe you would say three but I'll say two and you  
9 can correct me.

10 The first part, the part that Jeff said is so  
11 valuable, is the conversation as to how you might construct  
12 this high-speed rail endeavor. In talking about  
13 horizontally or in infrastructure, you know, you do a  
14 series of biddings. And you look at one or two people in  
15 the area of the acquisition of electronics, catenary, those  
16 type of things since there are only a couple of suppliers  
17 in the world.

18 All of those kind of structural things that as  
19 Jeff was referring to are very, very interesting and will  
20 be very helpful to try -- as you say, try to figure out how  
21 we build this thing.

22 The section that pertains to finance there is  
23 absolutely nothing new in it from all the conversations we  
24 have had from day one, as to the requirements that people  
25 believe are necessary in order to make funding available at

1 an earlier stage. So you just want to be very, very  
2 careful.

3 This is an Expression of Interest, which is  
4 basically it goes like this. "We think you ought to do the  
5 following things. And we want to participate as long as  
6 you do it the way we'd like it to be done." And so on the  
7 finance side that's a non-starter, because we already have  
8 a set of requirements from the State.

9 And the issue of then how you would try to use  
10 those -- how you try to use the funding that we have with  
11 the potential for -- what do you call it, Jeff, value  
12 engineering, reducing the price that we originally  
13 budgeted. Squeezing down the cost of this thing to lower  
14 the -- to minimize the gap of the new money that Dan was  
15 talking about. That's really what this game is going to be  
16 about.

17 And the first part of these Expressions deal, in  
18 some respects, with that issue. The financial part, the  
19 second part, is nothing new although I will tell you there  
20 is one write-up, which is extremely good from the point of  
21 view of things that should be done or could be done.

22 CHAIRMAN RICHARD: Well, I thought there were  
23 actually a couple on that line, but that --

24 BOARD MEMBER ROSSI: Well, there's one that's in  
25 depth.

1           CHAIRMAN RICHARD: Yeah.

2           BOARD MEMBER ROSSI: It's the Barker's (phonetic)  
3 one and it covers all of it -- I think all of the potential  
4 ramifications of financing. So I would just echo what the  
5 Chairman said. We need to be very careful in talking about  
6 these things as to exactly what they are.

7           And I also think that it is extremely interesting  
8 to understand that the private sector is not saying that  
9 they don't want to be involved. Quite the contrary, they  
10 are saying they want to be involved. It's a matter of how  
11 we structure it.

12           CHIEF EXECUTIVE OFFICER MORALES: Yeah, in some  
13 ways maybe the most significant thing about this was up  
14 until now we, and program proponents, have said the private  
15 sector will be there. Now the private sector is saying,  
16 "We'll be there under the right set of circumstances and  
17 here's how we'd like to be there." But what you see in  
18 these responses is a pretty significant investment of time  
19 and money by these firms just to put these responses in,  
20 which is really indicative again of a very positive step  
21 and a commitment.

22           And so what we want to do is take this, use the  
23 momentum, continue to move the process forward, flesh it  
24 out. And figure out -- devise the best plan for going  
25 forward. And again I think that a key to this program is

1 we're going to continue to adapt as circumstances change,  
2 as opportunities come up.

3           And we've proceeded the way we have with the  
4 first construction packages in the Valley, because that's  
5 what we could with the money we had at the time. The idea  
6 is to now change that direction and do this much more  
7 strategically as we go forward.

8           CHAIRMAN RICHARD: I think what I'm concerned  
9 about is that we live in a world, and this is the political  
10 world that I'm talking about for a moment, we live in a  
11 world where people make statements that if this were really  
12 a worthy project then the private sector would be here.  
13 And most of the people who make those statements have not  
14 spent any time in the private sector, they don't know  
15 anything about the private sector or how it operates. And  
16 frankly they don't understand that the private sector  
17 prices risk.

18           And a lot of what we're getting in these  
19 responses is people giving an assessment of what the risk  
20 is and how we could mitigate that.

21           Now the drafters of the Bond Act, in their  
22 wisdom, went to the voters and said, "There will not be an  
23 operating subsidy for this. We cannot use the bonds if  
24 there is a federal, state or local operating subsidy."  
25 If you're looking at how these things are built around the

1 world there's always that part where you have to get over  
2 that first gap before you get the ridership history.  
3 Governments fill that gap.

4           And Mike Rossi made a comment the other day that  
5 I thought was really smart, which is that in fact what you  
6 discern when you read these is what they're really saying  
7 is, "Government needs to be more aggressive about getting  
8 us over that gap. And when they are you're going to see an  
9 unleashing of a lot of private sector dollars."

10           But unfortunately, because people butcher this  
11 sense of what it is the private sector does we have to deal  
12 with that. So what we've got is just what we've said.  
13 We've got tremendous expressions of interest from people  
14 who want to do this and who have very good ideas about how  
15 we should do it.

16           But we still have a funding gap. And but we're  
17 going to build this project notwithstanding that, because  
18 we can close that funding gap. But we're just going to  
19 have to do it in probably a more systematic way.

20           BOARD MEMBER CORREA: Mr. Chairman and others, I  
21 just wanted to thank you for having this discussion,  
22 because I want to make sure that we're clear to the public  
23 as to what is the state of this high-speed rail. And what  
24 these 30 names are proposing and what they're not  
25 proposing.

1           I think, unless you really read between the  
2 lines, so to speak, it's very difficult to ascertain what  
3 you just stated. And I want to thank you for those  
4 comments.

5           CHAIRMAN RICHARD: Thank you, Mr. Correa.

6           Yeah, Mr. -- I didn't see who went first, but  
7 we'll just come down the line.

8           MR. CURTIN: All right. So I feel a little  
9 disadvantaged, because I haven't had a chance to read them  
10 and I'm looking forward to that. But I feel very  
11 optimistic about a couple of things.

12           There really is not any new money and there may  
13 be some new ideas about money. You've raised one  
14 repeatedly that I think has got great potential, which is  
15 the real estate values surrounding this project around the  
16 State.

17           I think what the private sector does -- and  
18 hopefully they're throwing enough clues out there as to  
19 when they'll step in, under what circumstances -- but they  
20 reduce cost as we have said, because they bring innovation  
21 in a way that we're not used to doing through the normal  
22 process of building our infrastructure. They transfer  
23 risk, which has a way of reducing costs if it's done  
24 properly and people understand it. But they also amortize  
25 the cost over a period of years.

1           So what people think of as a \$68 billion project  
2 or whatever number people want to throw around, if it's  
3 looked at as a \$68 billion project that's paid for like  
4 your house where you don't put \$68 billion on the table you  
5 put a mortgage, a slight little piece of your mortgage down  
6 and you amortize it over 50 years, it becomes a different  
7 cost concept that is -- That is you can get your head  
8 around it.

9           And government and ridership can actually end up  
10 figuring out how to do it. And that's what it brings,  
11 because if we're sitting here trying to figure out how to  
12 raise the money constantly it becomes -- we get lost in  
13 that rabbit hole.

14           But if they're saying -- and I believe they might  
15 be -- that, "If this project is actually going to work for  
16 30 years or 40 years we will put up some upfront costs, we  
17 will take some risk, we will bring innovation to bring your  
18 cost down. And we will look to that 30 to 40-year period  
19 to get our money back through this process." And that's  
20 really what the private sector brings to this.

21           And we don't normally do our big infrastructure,  
22 as you well know, through that process. We fund it, which  
23 is what everybody gets their backs up over. So it's hard  
24 to tell what the ridership risk is going to be, because we  
25 don't have a high-speed rail train.

1           But there are some places that it's pretty clear  
2 people will get on this train. And I believe, having been  
3 on a few, once you're on it, it's going to be something  
4 you'll want to get back on if you have a regular  
5 transportation need in this state and even if you're doing  
6 a trip up north. I know we look at the numbers now, but a  
7 family trip from north to south becomes very attractive as  
8 an alternative.

9           So I think the potential there is tremendous, but  
10 those are the issues that I've been looking at. And I  
11 believe there's enough people, as you can tell by the  
12 response here, that think this thing has a real potential  
13 for providing those kind of resources that they're willing  
14 to take the risk and certainly upfront. I'm looking  
15 forward to reading it.

16           So maybe I'll be proven wrong in one case or  
17 another, but hopefully not.

18           CHAIRMAN RICHARD: Tom?

19           MR. RICHARDS: Well, I'm just going to shorten it  
20 considerably, because I think you've said a number of  
21 things, Danny, that I was thinking also of.

22           But I think that really what we got here is was I  
23 was surprised at this number of responses. You could have  
24 easily called this a Request for Information as easily as  
25 you could have said just a Request for Expressions of

1 Interest. I think we got exactly what we anticipated we  
2 would get. I'm happy to say I'm amazed that there are so  
3 many major companies around the world who are seeing this  
4 project as the viable project that it has become. And this  
5 is an indication of that.

6           There should be no surprises other than I'm also  
7 surprised by reading each of these, the amount of time that  
8 was devoted in putting together the responses. The private  
9 sector doesn't do that if they think they're on a fishing  
10 trip. So I'm very pleased with the process.

11           And it's just part of where we're headed.  
12 Eventually we'll be ready to really look to the private  
13 sector for their participation in funding; we're just not  
14 there yet.

15           CHAIRMAN RICHARD: Okay.

16           All right, with that thank you.

17           I know it's getting late, but we do have --  
18 Mr. Curtin gave us a good segue into the next item on the  
19 agenda, which is a report on Station Area Planning Vision  
20 and Goals. And I know we've got a team of people we're  
21 going to present. And I'll just ask you to be as crisp as  
22 possible.

23           CHIEF EXECUTIVE OFFICER MORALES: Can I just,  
24 while I'm here I'll just quickly introduce --

25           CHAIRMAN RICHARD: Sure.

1 CHIEF EXECUTIVE OFFICER MORALES: -- because I  
2 think it does really segue one from the other. And Mr.  
3 Rossi has made this point before, and I think it really  
4 plays into this that we're not building infrastructure  
5 really, we're building an enterprise here with this and  
6 ultimately. And that's what creates the kind of  
7 opportunities we've just talked about.

8 And it very much plays into the whole question of  
9 how do we look at stations as part of an enterprise? Not  
10 just as a physical asset, but a functioning, contributing  
11 part of the system financially, economically, etcetera.  
12 And so what you'll hear now is our sense of some of the  
13 outlines of how that will work and how we go forward in  
14 them.

15 CHAIRMAN RICHARD: Ms. DuMond?

16 MS. DUMOND: Yes, thank you Chairman Richard,  
17 Vice Chair Richards, CEO Morales and Members of the Board.

18 CHAIRMAN RICHARD: And Vice Chair Selby.

19 MS. DUMOND: I'm sorry?

20 CHAIRMAN RICHARD: And Vice Chair Selby.

21 MS. DUMOND: And Vice Chair Selby, nice to see  
22 you.

23 Thank you for the opportunity to present today.

24 CHAIRMAN RICHARD: And the rest of the "chopped  
25 liver" Board.

1 (Laughter.)

2 MS. DUMOND: Yes, I'll name you all out --  
3 Mr. Curtin.

4 I have brought some folks with me here today to  
5 present as well. It's not just the High Speed Rail  
6 Authority.

7 I have with me Meg Cederoth, who is our  
8 Sustainability Manager for High Speed Rail, but I've also  
9 brought our friends from the Strategic Growth Council:  
10 Suzanne Hague, who you'll hear from in a little bit. And  
11 Eric Eidlin with the Federal Transit Administration, whose  
12 work internationally studying high-speed rail abroad,  
13 provides best practices to inform California's approach.

14 Rail travel around the world is more popular than  
15 ever. We have an opportunity to translate the  
16 international sensation of high-speed rail to California.  
17 Our vision is to transform our cities with land strategies  
18 that allow sustainable development to take place and reduce  
19 greenhouse gas emissions.

20 As an enterprise, as CEO Morales spoke of, high-  
21 speed rail seeks to understand at each station commercial  
22 and regeneration opportunities through station area  
23 planning that maximizes our system performance, delivering  
24 funds for reinvestment, and creating an economic engine for  
25 our communities.

1           We want our stations to be iconic structures that  
2 reflect the local context and represent a hub of the  
3 community delivering best-practice technology and  
4 complimented by surrounding development.

5           Our stations will meet robust sustainability  
6 targets throughout planning, design, construction and  
7 operation. And we'll achieve these aims by working with  
8 our partners developing a unified vision for each station  
9 location.

10           Our stations are in the heart of our populations,  
11 with up to 24 stations that link our urban centers and  
12 smaller cities with a focus on multimodal connectivity.

13           And our partners are the key to accomplishing at  
14 each location that unified vision I mentioned.

15           We have provided funding to our cities to prepare  
16 for their land-use changes and zoning changes that will  
17 occur with the development of our system and by focusing  
18 development around the stations.

19           While each contract is tailored to the needs of  
20 the community for the most part they all include market and  
21 financial analyses, a consideration of the government  
22 structure that will bring the best investments, the  
23 development scenario analysis and implementation planning.

24           The short, fast train ride between the Central  
25 Valley and the Bay and the L.A. Basin will connect our

1 economies like never before. Imagine having regular  
2 service that gets you to the Bay area in less than an hour  
3 and from the Central Valley to the L.A. Basin in an hour  
4 and a half, all without leaving the ground.

5 We're working with the California Transportation  
6 Agency and our local partners to ensure our stations are  
7 multimodal hubs efficiently designed for time transfers  
8 with other modes and appropriate train dwell times.

9 As a catalyst for transformational change in  
10 California the high-speed rail station vision is really  
11 about creating value in our communities. We're focused on  
12 revitalizing our downtown cores, designing for district  
13 scale sustainability that my colleague Meg is going to  
14 touch on.

15 So I described our vision of maximizing the  
16 financial and operational performance of high-speed rail  
17 while capitalizing on the development opportunities and  
18 revitalizing our downtown cores, but there are challenges  
19 with this approach. How do we ensure land-use changes  
20 encourage infill development and refocus growth in our  
21 cities? How can investments in districts around stations  
22 be financed? How can we work together to plan for and  
23 implement projects as early as possible? And how do we  
24 trigger market conditions that appeal to investors?

25 There are examples of high-speed rail -- high-

1 performing systems, excuse me, around the world that  
2 demonstrate the economic and place-making potential of  
3 stations. Not just the international destination cities,  
4 but some that compare to the size of our cities, such as  
5 Kanazawa, Japan and Malaga, Spain.

6 In Japan, retail accounts for over 45 percent of  
7 JR West's operating revenue in its non-transportation  
8 industry. And real estate is 18 percent. They're  
9 currently renovating this --

10 VICE CHAIR SELBY: I'm sorry, could you repeat  
11 that again, retail accounts for what percent?

12 MS. DUMOND: Over 45 percent of non-  
13 transportation revenues.

14 VICE CHAIR SELBY: Great.

15 MS. DUMOND: Retail at 18 percent. They're  
16 currently renovating facilities in places like Kanazawa at  
17 the station just to support that growth in retail and real  
18 estate around the station.

19 And similar to our system from San Francisco to  
20 Los Angeles the Spanish National Railway operates the  
21 Madrid-Malaga high-speed rail trip, which takes about 2  
22 hours and 30 minutes. The trains run 186 miles an hour  
23 where driving would take more than twice as long.

24 The station itself is a tourist destination in  
25 this case. It includes a four-star hotel inside, car

1 rental offices, a tourist information center, cafes, bars.  
2 Over 30,000 square foot shopping center as well.

3 And stateside here in the U.S., in Denver Union  
4 Station area with creative financing arrangement, Denver's  
5 seen more than a billion dollars in development of the land  
6 around the station already completed or underway. And  
7 revenues from this source are outpacing projections by  
8 almost a decade.

9 So with that I'm going to turn it over to Eric  
10 Eidlin, who's going to talk about best practices in high-  
11 speed rail from his experiences in France and Germany.

12 CHAIRMAN RICHARD: Welcome.

13 MR. EIDLIN: All right. Thank you, Melissa, and  
14 thank you everyone for giving me the time to speak. Yeah,  
15 I work in the San Francisco Office of the Federal Transit  
16 Administration. I've been the primary liaison between the  
17 High-Speed Rail Authority and my office for about five  
18 years now.

19 I also received funding from the German Marshall  
20 Fund to, as Melissa said, go to France and Germany to look  
21 at best practices that are applicable here in California.  
22 France and Germany are some really good examples to study.  
23 They are the two oldest systems in Europe and they  
24 represent very different models of high-speed rail  
25 development.

1           In a nutshell, the French system emphasizes very  
2 fast travel times between Paris and second-tier cities.  
3 Whereas the German system is almost entirely blended with  
4 just a few exceptions and there are more stops in more  
5 cities, more mid-size cities.

6           To give you an example one of the busiest  
7 corridors in France, the Paris to Marseille Corridor which  
8 you see on the map here, is just short of 500 miles. The  
9 travel time is a little over 3 hours, average speed of 146  
10 miles an hour.

11           One of the busiest routes in Germany, between  
12 Frankfurt and Berlin is a shorter trip, 342 miles and takes  
13 a little longer, so significantly slower average speed at  
14 just over 90 miles an hour.

15           But whereas the French system has Germany beat in  
16 terms of travel times, station to station, the German  
17 system offers much better connections within urban areas.  
18 That's both at the station level and at the metropolitan  
19 level. So this map of the Berlin high-speed rail network  
20 superposed over the local transit network shows this pretty  
21 well.

22           When I was doing my research in Germany I was  
23 based here in this East Berlin neighborhood. And if I was  
24 headed south to Munich or some other destination in the  
25 south I could save a half hour on my trip by actually

1 boarding the train at this -- it translates as "south-  
2 crossing station." Trains that leave the main station get  
3 to the Sudkreuz five minutes later.

4           So what this shows here is that in some cases  
5 station-to-station travel times aren't really the most  
6 important consideration, it's really door-to-door travel  
7 times. And you can draw obvious comparisons here from  
8 Sudkreuz to Millbrae and Burbank perhaps. You know,  
9 perhaps this should be more than just airport stations.

10           Another big takeaway for me was that stations are  
11 very complex and they serve multiple purposes. This is a  
12 photo of the underground concourse that provides access to  
13 the rail platforms in Hannover. But as you can see it's  
14 also a shopping mall, so it's a destination in and of  
15 itself.

16           Additionally, we've all heard of the proverbial  
17 "other side of the tracks" and it's true that railways  
18 divide neighborhoods but when you're investing a lot of  
19 money in constructing a station, that's also your  
20 opportunity to connect those neighborhoods.

21           And this is an aerial view of that Hannover  
22 concourse that I just showed you and obviously this is a  
23 very important role. A lot of people just use this as a  
24 pedestrian passageway, but obviously this is something that  
25 you need to recognize, celebrate and plan for upfront if

1 you want it to become reality.

2           In closing I just wanted to focus on perhaps what  
3 is my biggest takeaway from all of my research, which is to  
4 think about the real competitive advantage of high-speed  
5 rail stations.

6           Now, many people in this state will say high-  
7 speed rail stations are just like airports. And while it's  
8 true that both offer access to destinations within perhaps  
9 the 100 to 500-mile range in a similar way that comparison  
10 really fails to account for the urban design advantages of  
11 high-speed rail.

12           And I think this juxtaposition shows this pretty  
13 clearly. This is the Lyon Airport on the right. In 2011  
14 it handled 8 million passengers. The main high-speed  
15 station handled over 3 times the number of passengers in  
16 the same year. And it had 10 times as many jobs and  
17 development within the station area. And I'll also add the  
18 station area is only 1/12th the size. So if you do a  
19 simple arithmetic here you're accommodating 40 times the  
20 passengers per land area, per unit of land area.

21           So it's a very space-efficient mode of intercity  
22 travel. And I think that's something we really need to  
23 recognize and make the most of. So you see on the left,  
24 development goes right up to the tracks, it's very dense.  
25 They're further densifying right now.

1           In the case of airports you have runways, you  
2 have federal runway protection zones. You just can't build  
3 right up to the tracks. So this is something we need to  
4 make the most of.

5           And I will let Suzanne Hague talk a little bit  
6 more about how the Strategic Growth Council in the state  
7 plans to do that. Thanks.

8           CHAIRMAN RICHARD: Mr. Eidlin, before you leave,  
9 you're co-located out here now; is that right? Or no, are  
10 you still with the FTA in Washington? Where are you?

11          MR. EIDLIN: Well, partly -- shortly.

12          CHAIRMAN RICHARD: Okay. You're going to be  
13 available to work with us soon?

14          MR. EIDLIN: Not quite yet, yeah. Within the  
15 next month, I would say.

16          CHAIRMAN RICHARD: Okay. Yeah, I appreciate this  
17 information.

18          MR. EIDLIN: Sure.

19          VICE CHAIR SELBY: Mr. Chairman, if I could just  
20 say a word. This is the second time that I have seen this  
21 presentation and it's just wonderful. I've really  
22 appreciated it. I appreciated it the first time, it's even  
23 better the second, so thanks.

24          CHAIRMAN RICHARD: Great. Okay.

25          MS. HAGUE: Great. Thank you for having me. I'm

1 Suzanne Hague. I'm a Senior Adviser for Community  
2 Development and Planning at the Strategic Growth Council.  
3 The SGC is a cabinet level coordination among seven state  
4 agency secretaries plus three appointed public members.  
5 And we work on a broad range of issues around sustainable  
6 communities and sustainable development throughout  
7 California.

8           And in 2014, the High Speed Rail Authority and  
9 the SGC entered into a unique arrangement to place two  
10 people within the SGC to work on high-speed rail related  
11 issues. I'm thrilled to be one of those people.

12           And what I'm working on is first of all,  
13 enhancing the capacity of the project to look at  
14 development of land-use issues as they pertain to high-  
15 speed rail station areas and really regionally throughout  
16 the state. And secondly, to tie these issues to broader  
17 statewide goals and objectives.

18           So what this looks like on a daily basis to me is  
19 really focusing on how to, in my geeky planner parlance,  
20 achieve an infill-oriented future of development in the  
21 state of California. So what that means to real people is  
22 basically how do we get more development to go into  
23 existing urban centers instead of in natural and working  
24 lands? And as Melissa alluded to, and Eric as well, this  
25 has obvious ridership and revenue benefits for the high-

1 speed rail program.

2           Because of that connection between ridership and  
3 density and development the Authority participated in  
4 funding, along with the Strategic Growth Council, a report  
5 in 2011 that was called "Vision California." And that laid  
6 out a series of alternative growth scenarios for the State  
7 using high-speed rail as the future spine of development.  
8 And basically analyzed what does it look like if we grow in  
9 different ways?

10           What that report found was that an aggressive but  
11 achievable infill-oriented future development pattern could  
12 account for a 17 percent reduction in vehicle miles  
13 traveled, which would also contribute to a 28 percent  
14 reduction in greenhouse gas emissions. It would save 3,700  
15 odd square miles from future development. That is the size  
16 of both Rhode Island and Delaware combined.

17           It has inherent benefits for local municipalities  
18 to the tune of around \$32 billion saved in infrastructure  
19 costs. And at the individual household level an average of  
20 almost \$7,000 of annual savings.

21           At the local level \$15 billion could be saved in  
22 maintenance and infrastructure-related costs and over  
23 140,000 fewer annual health incidences across the State, so  
24 high-speed rail goals obviously intertwine with an infill-  
25 oriented future as well as state climate targets, local

1 economic stability and household savings.

2           So that concludes the motherhood and apple pie  
3 portion of my presentation. All well and good, but how do  
4 we achieve these shared visions and goals?

5           I think as Melissa alluded to, the high-speed  
6 rail station area has really tremendous potential to change  
7 the shape of the future of cities. And I think that's  
8 really evident in the images shown.

9           These are both from the vantage point of the  
10 front doors of the current location of Diridon Station in  
11 San Jose and of the Palmdale Transportation Center. Huge  
12 potential and we know that high-speed rail will change the  
13 value proposition in those areas and catalyze new  
14 development.

15           But I want to be honest with you today in saying  
16 that I think we face some significant hurdles to achieving  
17 that shared vision of infill development and a more  
18 sustainable future of growth. The reasons for that are  
19 complex, but I think it's safe to say that if that type of  
20 development was financially feasible today in these areas  
21 and others these pictures would look much different.

22           Certainly in the future with high-speed rail  
23 connectivity, we will see a marked change in that. There  
24 is a question though of the timeline for that change. We  
25 know that in both international examples and domestic

1 examples that transit investments change markets, but they  
2 often take decades to do that as the system is built out.  
3 And this is a long-term project that we're engaged in, so  
4 that's to be expected.

5           What we want to avoid is that in the interim you  
6 can often see moderate quality and moderate intensity  
7 development occur around these stations until full build  
8 out and until full realization of that market potential.

9           And so I think -- you know, I was really  
10 intrigued to hear your conversation about the Request for  
11 Expressions of Interest. I think there's a very similar  
12 dynamic here with high-speed rail station areas, which is  
13 to say we have anecdotally a lot of expressions of interest  
14 on the part of the private sector to come to the table and  
15 make these station areas really great.

16           And also there's a conversation that we need to  
17 have as to what are our respective roles in achieving that  
18 and really tipping the scales so that that market  
19 investment makes sense. So the Strategic Growth Council is  
20 working on a number of initiatives to that end, primarily a  
21 lot of work around funding and financing models.

22           Again, the idea is how can we play a role in  
23 catalyzing market development and market-rate growth ideas,  
24 such as credit enhancement and leveraged infill funds. So  
25 essentially if we put in some seed money, and then leverage

1 private and philanthropic funds, to create some additional  
2 capital for projects infrastructure financing is a huge  
3 hurdle for many of these communities. Especially where the  
4 traditional dynamic is that the public sector provides  
5 infrastructure and the private sector then can respond to  
6 that.

7           In a lot of these communities -- excuse me, the  
8 public sector doesn't have the physical capacity to provide  
9 the infrastructure, certainly, to the level of intensity  
10 that we're talking about in our shared vision. So to that  
11 end it's about horizontal infrastructure, which is  
12 basically pipes and wires and things that you need to have  
13 development happen.

14           But it's also about place-making infrastructure,  
15 which is street-scaping and trees and sidewalks and things  
16 that signal to both market and to consumers that this is a  
17 place that is worthy of being in and investing in.

18           We're also looking at the State's real property  
19 assets as a tool to accomplish and help catalyze infill  
20 development in high-speed rail station areas and in other  
21 priority infill areas. So working with the Department of  
22 Government Services to infuse into their procurement and  
23 leasing process, a more stringent what we call location-  
24 efficiency criteria. Which is basically to say if we're  
25 investing our state dollars in real property assets let's

1 make sure that they're reinforcing our infill development  
2 goals.

3           And we would love to see a similar policy adopted  
4 by the High-Speed Rail Authority really to encapsulate what  
5 I think has already begun to happen throughout the State,  
6 which is that places where you lease office space and put  
7 other sort of office-oriented activities are really in the  
8 station areas where you're building out and helping to seed  
9 development.

10           We're also looking at ways to incentivize the  
11 implementation of Senate Bill 375, which I think Melissa  
12 alluded to, that requires the metropolitan planning  
13 organizations to plan sustainable land use around  
14 transportation investments. It's a significant step  
15 forward at the State level to achieving infill development.  
16 And yet we always hear that they need implementation  
17 resources in order to accomplish those.

18           And finally, there's a role for technical  
19 assistance at the local level. Helping local communities  
20 understand how to streamline their permitting processes,  
21 their zoning codes, and other sort of public sector roles  
22 to enhance the environment for infill to happen.

23           The last thing I'd like to call to your attention  
24 is the role of engaging regional economic engines and  
25 advanced planning for high-speed rail stations.

1           The Strategic Growth Council has embarked on a  
2 project to look at the role of anchor institutions. This  
3 is more geeky planner parlance, but essentially that means  
4 regional, economic drivers that tend to be physically  
5 anchored in the communities that they serve. So they're  
6 not likely to pick up and move to another place.

7           And in particular we're looking at the role of  
8 higher education and medical facilities or "Eds and Meds."  
9 And how they are juxtaposed against the high-speed rail  
10 station -- excuse me, the high-speed rail alignment.

11           What we see there is that really there is an  
12 opportunity to look at synergies, both within regions and  
13 between regions, between these educational healthcare  
14 institutions and also creative industry sectors. To  
15 understand where there may be clusters or synergies among  
16 them and where they might benefit from partnering with one  
17 another to enhance their connectivity to high-speed rail  
18 station areas. And also potentially have a physical  
19 presence in the station areas themselves.

20           So the map to the bottom of the screen represents  
21 the creative offices in the Fresno Metropolitan area.  
22 These are offices that include technology, design, media,  
23 communications and so forth. And the star represents the  
24 future high-speed rail station.

25           Also right near that star is a very innovative

1 company called Bitwise Industries in Fresno, which is home  
2 to 28 separate technology companies, has trained over 700  
3 individuals, and provides technology solutions to the likes  
4 of Facebook, VISA and eBay.

5           So we can start to see that with high-speed rail  
6 and enhanced connectivity to the Silicon Valley we can  
7 imagine many more of these types of economic drivers being  
8 drawn to high-speed rail station areas.

9           The opportunities for them, from a business  
10 proposition standpoint is of course, visibility,  
11 connectivity and access. Also opportunities where  
12 proximity between institutions or even co-location, as in  
13 the case of Bitwise, might make competitive sense for them.

14           We can see high-speed rail station areas begin to  
15 emerge as service hubs for everything, from healthcare  
16 services to technology. And we can begin to imagine inter-  
17 regional partnerships that could look like reciprocity  
18 agreements between educational or research institutions in  
19 different regions of the State and etcetera.

20           So I'd love to turn it over to my colleague,  
21 Meg Cederoth, who will talk more about how to make station  
22 areas innovation districts for this type of development.

23           Thank you very much.

24           CHAIRMAN RICHARD: Thank you, Ms. Hague. Thank  
25 you.

1 MS. HAGUE: Great. Thank you.

2 MS. CEDEROTH: So good morning. As you've heard  
3 the stations --

4 CHAIRMAN RICHARD: You missed that one, Meg.

5 MS. CEDEROTH: Pardon me?

6 CHAIRMAN RICHARD: I think you missed that one,  
7 it's afternoon.

8 MS. CEDEROTH: It's been a good morning.

9 CHAIRMAN RICHARD: It's been a good morning.

10 MS. CEDEROTH: So as you've heard the stations  
11 really have a tremendous opportunity and can transform the  
12 surrounding development, particularly through the careful  
13 execution of excellent design to create these attractive  
14 places. These design techniques fall under the umbrella of  
15 sustainability. So this is design that not only uses  
16 resources efficiently, but it delivers places where new  
17 developers, residents and employers want to invest.

18 And these techniques are not just building-based,  
19 such as materials, health or water efficiency. But also  
20 are a larger scale technique such as looking at plantings  
21 or pavements that can deliver resilience from water  
22 management as well as attractive places where people want  
23 to gather and walk; that place-making infrastructure.

24 Or they're energy networks, which can enable the  
25 station building to share any extra renewable energy with

1 adjacent developments.

2           Ultimately though, it's the users and the  
3 customers' experience that will tell us whether or not  
4 we've been successful when it comes to sustainability or  
5 delivered a successful place. You know, is the building  
6 inviting to the community? Is it intuitive to use? Can  
7 our riders find where they need to go? To that end we're  
8 designing the station to be universally accessible and  
9 beautiful, secure places that are intuitive to use.

10           The experience from around the world has shown us  
11 that these can be places where people want to come for more  
12 than just catching a train.

13           But to do this, to create that destination, and  
14 to see the return on investment that Melissa's referred to  
15 we know we need to have a number of conditions including  
16 integrating well into the surrounding development and  
17 making sure there's good, clear access for all users  
18 including cyclists, pedestrians and transit and other  
19 users.

20           This means applying innovation to create stations  
21 for the 21st<sup>t</sup> century. So you can arrive at the station and  
22 plug in your electric car or drop your bicycle off at the  
23 bike station. And then take the train to your meeting in  
24 -- I'm not sure who's going to bike and who's going to take  
25 the electric car, but I'm sure one of you will -- take the

1 train to your meeting in Fresno or Palmdale.

2 This also refers to ticketing and passenger  
3 information technology that will make accessing the system  
4 seamless with other emerging transportation modes.

5 So you'll know you're in a high-speed rail  
6 station, because of the inspiring and logical design in a  
7 vibrant and urban district. But other cues will actually  
8 signal to you unique aspects of the local vernacular, so  
9 that you know what city you're in.

10 So this applied innovation, including the  
11 expression of the local and the high-speed rail identity,  
12 through high performance and good design helps to inspire  
13 that transformational effect that the State is looking for.

14 As it explained today, our stations will be  
15 exemplary, high-performance buildings that achieve the  
16 highest level of certification under the U.S. Green  
17 Building Council's rating system, LEED Platinum. So these  
18 buildings will not just perform to, but will exceed other  
19 metrics such as net-zero energy, material sustainability,  
20 water efficiency and life cycle costs, so that the  
21 Authority has an excellent performing and affordable-to-  
22 operate asset.

23 You know, the Board and the Authority have always  
24 shown a very thoughtful leadership on sustainability  
25 issues, including reducing greenhouse emissions, the use of

1 renewable energy, and station design. And the team has  
2 made progress on practical implementation through several  
3 policies and criteria manuals.

4           As we move into design we're grounding our  
5 building performance metrics and research we've engaged in  
6 with the California Energy Commission as well as the  
7 Department of General Services.

8           We've also convened top designers and contractors  
9 who have delivered Net Zero Energy and other leading  
10 sustainable buildings throughout California in a task  
11 force. Through this task force we've refined and analyzed  
12 our criteria, so that we now have a set of performance  
13 targets that deliver on the Authority's stated goal to be a  
14 leader in sustainable design.

15           Sustainability is an ideal that leads to  
16 transformation, but its practical application relies upon  
17 balancing environmental, economic and social impacts as  
18 well as a commitment to continual improvement to work  
19 toward that ideal.

20           So it's already begun with cities such as Burbank  
21 and Fresno. We're continuing that work with our other  
22 station cities to develop a playbook for what the Authority  
23 can deliver to station communities and how we work well  
24 with our partners to enable these community hubs to happen,  
25 which Melissa is going to illustrate now.

1 MS. DUMOND: Thank you, Meg.

2 So we've developed a very brief animation of how  
3 a high-speed train station could transform our cities over  
4 time. You'll see density of development increase, the land  
5 around the station shift to its highest and best use and  
6 the station becoming a destination in and of itself, in  
7 addition to providing access to our system.

8 And I think this actually has music to it.

9 (VIDEO: Music plays to animation.)

10 Thank you. This does conclude our presentation,  
11 so I wanted to leave you with a couple of next steps in  
12 addition to that awesome music.

13 We are developing policies that will further  
14 define how the high-speed rail -- how we are facilitating  
15 station and station area development. And we're working  
16 with our cities to ensure the development around the  
17 station is complementary around to high-speed rail.

18 We want to plan for people to stay within the  
19 station district to meet all of their needs arriving to  
20 and/or leaving by high-speed train.

21 We're also working to define our stations, both  
22 from a design standpoint and the identity of the system.  
23 Our vision for iconic stations requires a translation of  
24 the high-speed rail phenomenon from an international  
25 concept to a California aesthetic.

1           And with that I'll open it up to comments. And I  
2 think maybe --

3           CHAIRMAN RICHARD: We also have a special guest,  
4 so Kate White from California State Transportation Agency.

5           DEPUTY SECRETARY WHITE: Yes, thank you so much.  
6 I'll be very brief. I know you're over time.

7           I just wanted to say that in my capacity as  
8 Deputy Secretary at the State Transportation Agency I've  
9 had many opportunities -- also as a Strategic Growth  
10 Council key staff representing Secretary Kelly -- to work  
11 with the three staff that you heard from here and you are  
12 extremely lucky. The Authority is very lucky, the State is  
13 very lucky, to have this level of expertise, talent and  
14 skills focused on our communities. And so I wanted to  
15 share that.

16           And then also just to say specifically what I  
17 really appreciate about this body of work that you just  
18 heard about is that it leverages -- are really bringing the  
19 benefits of high-speed rail very concretely to communities,  
20 to see what are all the environmental, the social, the  
21 economic benefits that we are bringing to the stations.

22           And also, in turn I think there's really endless  
23 possibilities, and you've touched on this earlier today,  
24 to look at capturing the real estate value that we are  
25 creating with this tremendous investment in California to

1 reinvest again into the high-speed rail system. Thank you.

2 CHAIRMAN RICHARD: Thank you, Ms. White.

3 You know what, just we'll wrap this up.

4 First of all, I had sent this note out to my  
5 colleagues, but just to say it with the departure of two  
6 members of our Board: Catherine Perez-Estolano and Rick  
7 Frank, also known to some as Jim -- sorry that's just a --  
8 but we lost two people who both had great expertise and a  
9 very heartfelt commitment to the sustainability objectives  
10 that has been talked about here this morning.

11 So they had been on a committee that I had  
12 created for transit land use policy, to bring transit land-  
13 use policy ideas to the Board. In their absence I have  
14 actually named myself to the Transit Land Use Committee.  
15 And so, right now I am the Committee. It's really part of  
16 my ongoing effort to find things that Mike Rossi can tell  
17 me I don't know anything about. And --

18 BOARD MEMBER ROSSI: There's a multitude.

19 CHAIRMAN RICHARD: Right, there's a multitude to  
20 choose from. Yes, I know.

21 But I think the point that's been made here this  
22 morning I just want to emphasize again. There's a very  
23 fortuitous harmony between the business objectives of high-  
24 speed rail, the enterprise objectives, which are enhanced  
25 by having density and connectivity to our stations which

1 brings us riders and allows other systems to benefit from  
2 the riders.

3           So that is an uplift to our economic model to  
4 have more density and connectivity to the stations, more  
5 capacity to have people come and use the system. There's a  
6 happy harmony between that and the goals of this Board, but  
7 also this Governor and the legislative leaders to make sure  
8 that California's on the forefront of reducing our carbon  
9 emissions in the things that we do and to build sustainable  
10 communities.

11           And for a lot of these communities in areas in  
12 the Central Valley and other places that have been hollowed  
13 out by suburbanization and economic realities, if we're  
14 fortunate we can also see patterns that have emerged around  
15 the world, where this is a revitalization tool, so all  
16 those things can come together.

17           I do think that some of the issues that Ms. Hague  
18 raised, in terms of what are the tools to make that happen,  
19 right now those are beyond me. But as we continue to work  
20 -- and I'll be working with staff on this -- and hopefully  
21 coming back to the Board with ideas about where we are in  
22 the spectrum of things working with developers and others  
23 to really make this happen. Because I think we have a once  
24 in a lifetime opportunity to not just build a train, but to  
25 rebuild a lot of our cities.

1           So with that I thank all of the people who just  
2 spoke and, Ms. White, our best to Secretary Kelly as  
3 always.

4           BOARD MEMBER CURTIN: Can I ask a quick question,  
5 Mr. Chairman?

6           CHAIRMAN RICHARD: Yeah.

7           BOARD MEMBER CURTIN: To the degree that this --  
8 I mean, how are we integrating the development of the  
9 stations with the development of the train itself?

10          CHAIRMAN RICHARD: Right.

11          BOARD MEMBER CURTIN: Can we envision this as  
12 part of the bidding package for these segments that we've  
13 been talking about and the long-term revenue streams that  
14 might help get these things built?

15          CHAIRMAN RICHARD: Well, I think that's exactly  
16 one of the things that we need to focus on. And frankly  
17 that precipitated out of some of the RFEI responses.

18          BOARD MEMBER CURTIN: Right.

19          CHAIRMAN RICHARD: Because, for example, some  
20 people made the point that the ultimate operator of the  
21 train really probably has some very important things to say  
22 about station design. Because it's going to -- and Jeff  
23 has made the point that we learned this from our friends in  
24 Japan where because of the efficiency of the station design  
25 and the reduction of dwell time for the trains in the

1 station, they actually reduced the capital cost of the  
2 station, because they didn't need to have as many  
3 platforms, because they weren't holding as many trains in  
4 the station, because they integrated the station design and  
5 the system operations.

6 BOARD MEMBER ROSSI: I think two different things  
7 -- you want to be careful, designing new stations as part  
8 of your train system is apparently necessary.

9 CHAIRMAN RICHARD: Right.

10 BOARD MEMBER ROSSI: But I think the question  
11 Danny asked was the revenue issue and that wasn't in any of  
12 those things.

13 CHAIRMAN RICHARD: That's correct.

14 BOARD MEMBER ROSSI: And the revenue issue would  
15 be more about the development around the stations.

16 CHAIRMAN RICHARD: Around the stations, right.  
17 And okay, so that is exactly right. And on that point I  
18 guess what I would say is at this moment I think that's  
19 actually the subject of thinking that we need to do and to  
20 bring back here, because I don't think we have that figured  
21 out at this point.

22 BOARD MEMBER CURTIN: No, I agree with that 100  
23 percent. And I think it's something that's not really  
24 thought about until you see it in action in other places.  
25 And it changes the nature of communities, there's just no

1 question about it.

2           And I'm looking at Commissioner Richards. I  
3 think of all the cities in California, Fresno is the sort  
4 of gateway to several worldwide destination sites that will  
5 be very accessible, meaning Yosemite and the giant  
6 Sequoias. That's sort of the place that people go when  
7 they're looking for a backpack experience, but if this  
8 train is up and running there will be development around  
9 that.

10           And the issue that -- I mean sharing those  
11 revenues is going to be very complex. But also designing  
12 not just for efficiency, but for the way a community  
13 envisions itself is going to be a big part of this.

14           CHAIRMAN RICHARD: That's right.

15           BOARD MEMBER CURTIN: So I mean the sensitivity  
16 at the local level is going to be extremely important.

17           CHAIRMAN RICHARD: And you're exactly right and  
18 we have to work in partnerships with those communities.  
19 And we're fortunate that right now we have some excellent  
20 leaders in Fresno and Palmdale and San Jose and other  
21 places that want to work with us.

22           BOARD MEMBER CURTIN: Right, who I think  
23 who's starting to get this right or getting it.

24           CHAIRMAN RICHARD: Yeah. No, they're there.

25           So with that I think given the lateness of the

1 hour, and the fact that we're sort of without a quorum --

2 BOARD MEMBER CURTIN: I'd like to make a motion  
3 but (indiscernible) so let's go.

4 CHAIRMAN RICHARD: Yeah, so we're --

5 BOARD MEMBER CURTIN: We can't even adjourn.

6 CHAIRMAN RICHARD: Yeah, we can adjourn. We're  
7 not going to have a closed session today, so we will  
8 adjourn the meeting at this time and thank everybody for  
9 their participation. Thank you.

10 (Chairperson Dan Richard adjourned the Public Meeting of

11 The High Speed Rail Authority

12 at 1:01 p.m.)

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