



**DRAFT**

**FINANCE AND AUDIT COMMITTEE MEETING MINUTES  
June 19, 2018**

**Department of Healthcare Services  
1500 Capitol Avenue  
Hearing Room 72.167  
Sacramento, CA 95814**

**The Finance and Audit Committee of the California High-Speed Rail Authority (Authority) Board met on June 19, 2018 at 8:30 a.m.**

Committee Board Members Present:

Mr. Michael Rossi, Chair  
Mr. Tom Richards

Board Members in Attendance:

Mr. Ernest Camacho  
Ms. Bonnie Lowenthal

Authority, RDP, and ETO Staff Present:

Mr. Brian Kelly, CEO  
Ms. Pam Mizukami, Chief Deputy Director  
Mr. Joe Hedges, COO  
Mr. Russell Fong, CFO  
Mr. Tom Fellenz, Chief Counsel  
Mr. Scott Jarvis, Chief Engineer  
Ms. Paula Rivera, Chief Auditor  
Mr. Mark McLoughlin, Director of Environmental Services  
Ms. Patty Nisonger, CIO  
Ms. Kristina Assouri, Chief, Real Property and Third Party  
Mr. Michael McCormick, Director of Strategic Development  
Mr. Paul Engstrom, Third Party Manager  
Mr. Mark Evans, ETO  
Mr. Roy Hill, Chief Program Officer

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

**Agenda Item: May 15, 2018 Meeting Minutes**

- Reviewed and discussed at this meeting.

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

Mr. Rossi welcomed everyone and stated that the data in this book is not a whole lot different from

last month, which is not a bad thing, expect for the area of construction. We are going to focus on questions, the Executive Summary and a series of questions. I then want to focus on three items: 1) Environmental; 2) ROW; and 3) the drop in construction activity while expenses are increasing.

Mr. Rossi stated let's start with the minutes first as there are a series of questions that I am going to ask. Starting on page 2 (of the May meeting minutes), Director Camacho was concerned about the number of parcels that were contiguous or not contiguous. Ms. Assouri said contiguous was a matter of definition, which I happen to disagree with by the way, but that is ok. The question is do we have the necessary contiguous parcels? Are we getting them on a priority basis? Ms. Assouri replied yes. Mr. Rossi said ok.

Mr. Rossi moved onto page 3. Mr. Rossi asked if we are truly comfortable that Right of Way is moving in the right direction? Ms. Assouri replied yes. Mr. Rossi moved onto page 4. Mr. Rossi stated that there is a statement here from Mr. Hedges that he expected construction to be underway on between three and four type one and type two structures by the end of June. Since it is the end of June, is that going to happen? Mr. Hedges replied yes. Mr. Rossi said ok.

Mr. Rossi moved onto page 7 and asked about PMIS. Mr. Rossi asked Ms. Nisonger if she was still comfortable with July 19. Ms. Nisonger replied that for Construction Management, she expects final closeout by early August. It goes live next week. Mr. Rossi asked that if it goes live next week, does that mean you have finished testing and it is working? Or when you say it going live, you are going to do the testing? Mr. Nisonger replied that we are done with testing. Mr. Rossi stated that since you have come onboard that these issues have gone way down and thanked Ms. Nisonger. Ms. Nisonger said you're welcome.

Mr. Rossi directed his question to Mr. Hill. You stated you were hoping that the work plan would be the same date. You are hoping to have work plan 3 done by July 1. Is that still the same case? Mr. Hill replied that we are looking to align work plan 3 with the PMP (Project Management Plan). We want to reflect the long-term work plan. It will probably be August rather than July. Mr. Rossi said ok and wants no later than August. Mr. Hill replied that the PMP will come to the August Board and we want to make sure that that goes through first and then we will reflect that in the work plan. Mr. Rossi said ok.

Mr. Rossi moved onto page 8, Total Other Expenditures. Mr. Rossi asked are you able to explain that now? In the last meeting there was a line item for Total Other Expenditures and I asked about it but no one could answer it, so I am asking again. Ms. Assouri replied that we took your advice and we are taking it out of there. Mr. Rossi replied fine, great.

Director Camacho stated that since he was quoted in the minutes, he should be at least listed as present at the meeting. Mr. Fong replied that I think on the meeting minutes, Director Camacho, it is the committee board and F&A members that are listed in attendance, so we will figure that out.

### **Agenda Item: Financial Reports**

Mr. Fong stated he wanted to give a quick highlight on all of our financial and performance reports. We are at 83% of the year completed. Right now, I'm happy to say we have no aged receivables. That is eight months in a row for zero aged reports. Mr. Rossi stated that sitting here for seven years, how bad it was in the beginning, you guys are doing very nice work. Mr. Fong replied we appreciate that, thank you. Hopefully we will continue that moving forward.

Mr. Fong stated, as you know, we started focusing on disputes. We have \$21.8M in disputes. It is a 5.7% decrease from last month but the bulk of them we have been working with our partner, WSP,

aggressively on that. WSP represents about half of the total, and half of that is IT so we are aggressively working through those and I feel comfortable these should be done in the next couple of months.

Mr. Fong moved onto Cash Management. We have \$1.3B in Prop 1A. In Cap and Trade, we have \$1.4B. We have \$2.6B in Total Cash currently. At 83% of the year completed for the Admin Budget, we have spent 63.9% of our \$45M budget. Last year we spent 63.1% of our budget, so we are right on track. A big key to the discrepancy between full spend or not is our 18% vacancy rate today, which was consistent with last year also. Obviously, salaries and benefits are a big part of our Admin Budget.

Mr. Fong moved onto the Capital Outlay Budget. Again at 83% of the year completed, of our \$1.6B budget, we have spent 55%. Last year at this time, we were at 56%. Again, pretty consistent from years past.

Mr. Fong moved onto Total Projects and Expenditures with Forecast. We have now spent \$4.5B total on this project. Moving over to State Match, we have \$937M. Mr. Rossi replied 83% of year and 54% spent, 83% and 56%. We are going to come back to this when we talk about the construction piece and next year's budget and these kinds of trend lines trending down recently, so I am going to have to have some understanding of that. Keep that in mind when we get to that point. Mr. Richards replied that what concerned him that as we come to the end of the year, we have these kind of numbers, 83% of year at 56% of budget spent, by the end of the year, by June 30, will we have reached and actually spent what we had budgeted? And spent what we had budgeted for that year consistently. Is that true? Mr. Fong replied that two years ago, we spent 50% of our capital outlay budget. Last year, we spent about 56% of our capital outlay budget. Mr. Richards asked if that was for the entire year? Mr. Fong replied, yes, for the entire year. We did break a billion dollars last year. We are on target to break a billion this year. Expenditures are increasing but if you compare it to the budget, it is around 50% to 60%. Mr. Richards replied yes, because we've reached a point in the annual budget, we are spending everything annually yet we get farther behind in the totality over the entire project so something is not mixing here.

Mr. Rossi replied that if you look at the trend (budget) line, it is going straight up. I'm trying to understand for my vote for the budget because that is a big increase. As you look at the expenses, the committed expenses, we are spending a lot of money in construction that is trending down. There may be totally justifiable reasons for that but we need to explain that because if you just look at it visually, it is not a pretty picture. Mr. Fong replied, for folks in the room, 83% represents the time in the year that we have gone through. So, if you kind of match it up and we have spent 83% of the year. We are currently at 64% spend rate. Mr. Richards asked if the challenge has been and if the concern becomes the ability to adhere to the long-term budget. Mr. Rossi replied it becomes a hockey stick, you keep moving to the right and your hockey stick has a 45-degree angle and pretty soon it is a 90-degree angle. I don't think the world works that way. Part of it is, as you continue to do construction and try to catch up, there are a lot of moving pieces, we have to be sure we are explaining it in a way that people understand it because the nice thing about numbers is they don't lie. People may lie about them but numbers don't lie. As you look at that and I look at the budget, I've got to go really? Are we really going to make this number? I am going to have to have a little more explanation and I need some help. Mr. Richards commented that it is very easy to misinterpret numbers. It is not explained throughout the reports. Mr. Fong replied that part of being behind schedule, the spending of our budget, keep in mind for the bookends that we are at zero percent, at this point in time, for actual expenditures. DB contracts are at 51%, we have some third-party contract work at 32%, CP 2-3 Real Property Acquisitions are an additional 48% at this time. CP 4 you have DB work at 42%. Those are obviously big ticket items. Mr. Rossi commented that the problem is that he does not see how you go

from that performance to that projected performance, with any kind of prudent or rational analytics. It does not mean that there are not any, I just can't find them. So as you look at that, we are going to go vote on this in less than an hour. How do you explain that? Is it irrational exuberance or is there some really well thought out steps to get you to that place? We will get to that conversation. Mr. Fong please continue.

Mr. Fong continued with Total Projects, we are looking at State Match. We have to match the \$2.5B in ARRA funds. We are at \$937M so at 15% of the ARRA performance schedule, we are at 37%. I feel comfortable that we will meet our ARRA grant agreement spend.

Mr. Fong moved onto the Contracts and Expenditures Report. We have 240 active contracts worth \$5.7B. The Small Business Utilization Rate is 20%, which is pretty consistent with what it has been in the past. The good news is that if you look at our Project and Initiatives Report, we are reporting on thirty projects and initiatives. We are down to just two that are in the red. Ms. Nisonger reported on those last month and will keep those moving forward. Remember in the past, we have been double digits. I have to agree that since Ms. Nisonger has been here, she has done a terrific job with that.

Mr. Richards asked how do you measure the trajectory of the state match? Mr. Fong replied that we have until 2022 to match. So if you look at the schedule, based on when we started, it is about 17% of where we are actually are. We are at 37% of the match already so we just have to keep monitoring it every month to make sure we hit it. I feel comfortable.

Mr. Richards stated we have consistently unfilled positions. Since they remained unfilled for so long, I don't even know how we got to 226. I don't know if that was authorization. Mr. Fong replied yes, that goes through the Governor's budget process. Mr. Richards asked if these unfilled positions are causing us to operate less efficiently or accomplish less of the work? Mr. Fong replied that we never want to operate on a very high vacancy rate. Over time some of it is turn over. Some of it is attrition. It is not just some of the positions sitting years and years not filled. Does it impact us? I am sure it does. The goal is to get it to a higher level. Mr. Rossi commented that I think you need to answer the question a different way. Look at all the individual offices. You can see that in certain places, spots have not been filled in a long time and they are about project management. It is one thing if you don't have a junior accountant or this or that. When you look at the vacancies that are consistent and systemic that are important roles, that is what you need to get worried about. There are a couple of those as you work through these pages. So I think in fairness to Mr. Richards's question, it is not the number. Do you have some systemic or structural issues in a couple of places that are terribly important to the oversight of the program? I think you do. Mr. Kelly commented that part of the analysis we are doing for the Project Management Plan going forward we are in advertisement for some of those positions now and we are evaluating on how best to bring people on for the roles and responsibilities we want to fill by state vs. consultant staff. We are coming back to the Board on that in August. Mr. Richards said that is great. Mr. Rossi said thank you.

Mr. Rossi moved onto his questions for the Board Reports. For tab 6 (Summary of YTD Budget and Expenditures), same issue. For tab 7 (Executive Budget Summary), same issues. For tab 9 (Total Project Expenditures with Forecasts), we need to start talking about the issue of actual dollars spent on construction expenses seems odd. Can you guys explain as we go through that? For tab 10 (Contracts and Expenditures Report), pretty straight forward.

For tab 11 (Projects and Initiatives Report), you guys have done a good job cleaning this stuff up. There is still some stuff here that is what it is. Once you get the baseline taken care of, that is really good work as well. F&A committees tend to focus on negative stuff but I have to tell you this was a disaster for a long time.

Mr. Richards asked Mr. Hill regarding these schedules, is this information in terms of where we are, for instance, we are looking at the red circle, which is immediate corrective action required. Are these ratings now related to the new budget and the new business plan, or is this information? Mr. Kelly commented that he was reviewing it earlier and I think these have to be updated post baseline. Mr. Rossi commented that was what he was thinking. Is it that you can't update it until you get this stuff in? Mr. Kelly replied yes, that is right. Mr. Hill comments that you will see something at the August meeting. Mr. Richards commented that we will then see something quite different. Mr. Kelly replied, yes that is correct.

Mr. Richards had a question on tab 12 (Summary of Financial Reports), disputed invoices table. Am I looking at this correctly. Is 50% with the RDP? Mr. Fong replied about half. Mr. Richards asked where are we on this? Mr. Fong replied currently we have 87 partial disputes that we are working on now. They total \$10.8M. At this point in time over half are IT disputes. We are aggressively working through those, working through the WSP invoices. Mr. Rossi asked what is the target for getting it resolved? Mr. Hill replied as soon as possible. Mr. Richards stated that he assumes that the longer this goes on, the more difficult it is to resolve it for the Authority. Mr. Nisonger replied that you mentioned that there are a lot of IT disputes. From my perspective, once I dispute an item it goes back to the task lead on the RDP side and I get a response back from them with either an explanation or I revisit it. A lot of them have been resolved at my level. Between them, I don't know that invoices have come back around. Mr. Hill replied that I think the teams are working jointly to resolve them. I think by the August report, we will have a much better, positive position. Mr. Richards commented then that the magnitude of numbers will go substantially down. Mr. Rossi asked to make note of that.

Mr. Rossi moved onto tab 13 (Operations Report), page 3. On the issue of criticality, we will come back to that, when we talk specifics.

Mr. Rossi moved onto tab 14 (CP1 Monthly Status Highlight Report). Looking at page 3 of 4, it sounds like everything is wonderful. Nothing is wrong except for Avenue 8 which is the third bullet point. We have had a lot of discussion regarding Avenue 8. I would like to address all these other bullet points. We have no other problems with CP 1, we are all good. Mr. Jarvis replied that with construction there are always challenges. Mr. Rossi replied that he understands that there are challenges. As I read this report, there is only one thing indicated as a problem. We have no other problems as we sit here today? Mr. Jarvis replied that is correct. Mr. Richards replied to Mr. Jarvis that it would be helpful, like we have on some of the other reports, when you add something, can we add the month that it is being added in red so that we know this is something new as opposed to something we had seen before? Is it fair to say every month you are adding something or taking something off of these? Mr. Jarvis replied yes. Mr. Richards stated that would be helpful.

Mr. Rossi moved onto tab 16 (CP 2-3 Monthly Status Highlight Report), looking at Dragados/Flatiron, page 1 of 2. As I look at this, I did not realize that it was going so well. You have no issues? Am I missing something on this report or do you have another report that I have not seen? Mr. Jarvis said that we have issues. Mr. Rossi asked that this be put in the report. Mr. Richards asked Mr. Jarvis if this is something that you interact with Mr. Hedges on? Mr. Hedges replied that this is his report. This is a function of infrastructure delivery, not the engineer, so we will update here accordingly. I will transfer this in the new organization. This is going to be an infrastructure delivery report. Mr. Richards replied that is especially critical to CP 2-3. Mr. Hedges replied he understood.

Mr. Hedges asked Mr. Fong if everyone could get tabs for their reports to follow along. Mr. Fong replied yes.

Mr. Rossi moved onto tab 18 (Caltrans SR-99 Monthly Status Highlight Report), looking at page 1 of 3, contingency status. Can you explain that to me because as I read the next page, I can't find anything that indicates there is a need for a change in contingency status, so what is it for? Someone writes these reports and I assume someone reviews them. I am reading them and I expect when you come to this meeting you will come to meeting with the answers to the questions. If there is something happening here with contingency, there ought to be something in the write up that explains that. Mr. Jarvis asked if you are referring to the executed change orders that have used the contingency balance? Mr. Rossi replied yes. Mr. Jarvis replied that there have been change orders that have been issued. Mr. Rossi replied that if change orders have been issued, does that mean the contingency has been utilized to impact those change orders? Mr. Jarvis replied the contingency was used to fund the change orders. Mr. Rossi replied right, and wanted to know what caused those changes. What was the problem that caused that to happen? Mr. Jarvis replied that we can get you those specifics. Mr. Rossi replied perfect. Mr. Richards wanted to know where the money came from? It did not come out of contingency, did it? Mr. Rossi stated I wouldn't think so. Mr. Hedges replied that if you look at these dates, this report is a board report. It is pretty consistent with that authorization. I have to check the exact time, but if memory serves me correct, the Board authorized that. Mr. Rossi stated that it would not be a contingency issue, the Board authorized increases to the budget. Mr. Hedges replied that I don't know where that money came from. Mr. Richards commented that it would be helpful on all of these reports to put in red the items that you are adding.

Mr. Rossi moved onto tab 20 (CP 4 Monthly Status Highlight Report). This one is fascinating as this one is the only one that indicates that there is a problem. Looking at page 2 of 2, it talks about clearing and grubbing under major scheduled activities planned/ongoing. Can you give me some order of magnitude of what we are talking about here? Mr. Hedges replied this has to do with the Department of Fish and Wildlife. They started to clear and grub. The permits were not extensive enough, the writing was not adequate, thus they were issued a Stop Work Notice to update permits. They had been put on hold and that was just rescinded last week. It was a compliance issue with CDFW. Mr. Rossi asked about the next bullet item (substructure construction). Mr. Hedges replied that we have resolved that. Work has been resumed. Mr. Rossi asked if these caused any changes to the budget? Mr. Hedges replied no. I have not seen any PCO's (Project Change Orders) come across. We have had some terse correspondence, but I have not seen any PCO's yet.

Mr. Rossi said that at the next meeting, whoever the infrastructure person is over these reports, this is an oversight committee. We need to know the order of magnitude that the problem is, what is being done to resolve it.

Mr. Rossi moved onto the three items he wanted to discuss in more depth. Starting with Environmental, Mr. Rossi asked Mr. McLoughlin if these dates still make sense? Are they tying with Ms. Assouri's ROW? How is all of that coming together? Because when I look at the numbers, it looks like it is slowing down. Maybe it should be slowing down. There is a lot of stuff going on. I'm not making an observation that that's good or bad. As I look at schedules and all of those things, I am uncomfortable that we are starting to accelerate on a decelerating basis. If that is what is appropriate and you can make these dates, you need to just tell us. Mr. McLoughlin replied that the dates that we currently have in the F&A will be changed for the baseline, it was put together as it relates to the program. Phase one clearances have to do with the FRA grant for 2022, the RODs in addition to the construction. These dates that we have, proposed dates, new ROD dates have been vetted with the FRA on these dates and internally come up through the system to get into baseline as appropriate that we knew was coming based on the changes. Now there is a change with the Authority with Mike McCormick, Director of Strategic Development over ROD's. Environmental will help support this.

Mr. Rossi asked who is going to introduce Mr. McCormick to us? Mr. Hedges replied he would. This is Mike McCormick, our new Strategic Development Director. Mr. Rossi asked Mr. McCormick what his background was? Mr. McCormick replied thirty years in the Army Corps of Engineers, worked at DGS, and ran a small business environmental consulting firm prior to coming here. Mr. Rossi said thank you and welcome.

Mr. McLoughlin commented that now we actually have a mechanism, before we had infrastructure delivering ROD's and construction. Now we have Strategic Development the way it's currently setup, dedicated to delivering the RODs with strategic dates that can definitely be achieved.

Mr. Kelly commented that there are two elements that I would like to add to that. One is that we are coming to the Board for preferred alternatives for Bakersfield to Palmdale, and in October and November for the three alignments in Southern California. I think that should have been done long ago, but we'll get it done now since it helps direct the work, we'll move more quickly on analysis. It keeps people focused on the end game. These changes to the dates are consistent with our dialogue of putting strategies in place to deliver on them. We are also seeking NEPA assignment authority still from the federal government that might help expedite this further as we can hold the review dates better. These are strategies that we are putting into place on all of this. The changes in the dates are consistent with our dialogue, business plan, schedule, that is in the baseline. Mr. Hedges commented in the new baseline, there is an alignment to Project Management to make sure the RODs are being managed as projects. We are holding ourselves accountable to on schedule and on budget performance. Also with the alignment of engineering and environmental support coming back through. I think it is a very good, positive move. We are already seeing results and I hope that you will see an overall drop in costs to produce these RODs and you'll see them basically run on schedule as we deliver to the new baseline schedules. Mr. Rossi asked what results are you seeing? They don't show up in the numbers. Mr. Kelly and Mr. Hedges both replied not yet. Mr. Rossi asked what are you seeing as results? Mr. Hedges commented the results are seeing a new schedule, a new baseline schedule. We know where we are at. The first point of orienteering is finding out where you are at and figuring out where you need to go. That was a big major step. Looking at these processes, seeing exactly where we are at and seeing where we need to go. Putting together a schedule that will get us there and for holding ourselves accountable to that. That was the first step. Mr. Kelly commented that aligning the environmental review analysis with the cost to complete, that is described in the business plan, that in some cases, there is more work to be done but it is important that that alignment occur. Now that that alignment has occurred, we put together a strategy, we are bringing in additional personnel to make sure we can deliver on those dates. Again, our commitment as we put in the business plan is to deliver the RODs under the federal dates and that is what we are going to do. Mr. Hedges commented that what is important here is actual performance curves, which you don't have, for these projects, where you look at flat spend and getting relative small percentages to complete every month. This will drive us to a higher CPI and higher SPI. Hopefully in the next couple of months you will see that climbing. Mr. Richards asked that is what you are expecting? Mr. Hedges replied understand that these RODs are well under way right now. We need to correct the processes, get the people focused, and break them out of their current flat performance. It takes a while for the helm to respond to the bridge and that is what you are starting to see right now. It is small turns in the right direction. I wish it was more bold, more vivid, but you are not going to see that. Mr. Kelly stated that we actually need to start with the baseline. That is the alignment of this program. That is the definition of our direction going forward. We get that done, hold us accountable for performance of that baseline. Mr. Hedges commented that what we really need to start looking at, as we bring up confidence in reports, is for the program management and project controls, I think that is really where you want to look at, to see if it is responding. That is what I am starting to look at right now. I like that we have aligned state personnel to the management of contracts and focused the RDP to their technical expertise. It is clear rules, clear responsibilities as we start moving forward. Mr. Kelly

commented we bring in personnel directly responsible for moving progress forward. Mr. Hedges commented when we talk about this transition, to more of an execution type program, I agree with that but we need to understand that the success of our execution comes from our ability and the efficiency of our planning. As you saw in the baseline right now that in 2029, right now it is 2031 but our possible max revenue is going to be around 2029. Those savings are going to come through the planning, building up to the execution. Being smarter and avoiding the premature awarding of contracts to talk about more later and being stuck in the Right of Way, and the Environmental. We want to start avoiding that if possible, looking at acquisition strategies that think through this, that lay out plans of execution. We want to be a little bit more deliberate and a bit more precise. Hopefully, we can start talking about some of those issues. I think those will start producing results. There has been way too much energy forcing an unnatural process. It takes a toll on staff. It is taking a toll on our ability to look forward and execute it.

Mr. Rossi asked Ms. Assouri to talk to us about ROW. Ms. Assouri stated that at the last meeting you asked for a delineation of the critical path parcels. We have provided that to leadership, to Mr. Hedges and to Mr. Fong to make sure the format and data are ok. We wanted to provide it to leadership before we provided it to you. I want to share something anecdotally. Mr. Rossi wanted to know when we will see that. Ms. Assouri commented that out of the numbers for May, 65 of 607 total remaining parcels are identified as being DB critical parcels. Mr. Richards asked 65? Ms. Assouri replied yes, 65, so I can provide you that. In the optics of percentages, if I drop one, I'm still at 19. For CP2-3, half of what the design builders identify parcels remaining that we need, half of those are DB critical. Now I have to let you know that ROW is not verifying or validating that that's based on a resources loaded schedule. We are taking that as fact, assuming that the construction team is actually verifying that. Anecdotally, I wanted to share something. Because of the weekly reports that we provide to the committee, I am literally a month ahead of myself. I will tell you that since I started about eight weeks ago, we said there was a soft hold moratorium on acquisitions on any additional parcels. Just on CP 2-3, sometimes these design refinements actually reduce the total, so I just wanted to run a few numbers. In the June report, we have total parcels for CP 2-3 identified as 851. I know because I am there on a weekly basis, as is our acting Director of Real Properties. I would like to introduce him, Don Odell. He officially took that position about two weeks ago. We basically do split time in the field. I will tell you anecdotally, we are down nine parcels through the design refinement process. Mr. Rossi asked that does mean you are down nine less parcels that you need? Ms. Assouri replied correct, through design development and design refinement, because we are present at thirty, sixty, ninety, mostly at sixty and ninety percent. It is too late when they are released for construction for us to come in and say I don't think you need that easement, so we are weighing in at the right time. We have 585 revving to go. You asked about strategy, data matters to me, 67 of those are Design Builder hold. Some of those happen to be DB's sitting on the clock. I can't run our clock while they are figuring out design development agreements. So with the 518, the strategy that you are seeing in the executive reports are really heavily focusing on RONS. RONS (Resolution of Necessity) by its nature does not mean we are abandoning the negotiations. That just means we are serious about moving forward which you'll see especially with CP 2-3. That means that we are able to move forward and negotiate all the way through a judgement. In the past, we had a policy that thirty days after an offer, that we would pursue these remedies and I don't think that was systematically employed. We want to make sure we know that we are in the queue in the Central Valley with the judges. Mr. Rossi said this is great. You two people are in sync? Ms. Assouri and Mr. Jarvis replied yes. Mr. Rossi commented that is good.

Mr. Hedges said Ms. Assouri why don't you tell them about the headway. Mr. Rossi replied Mr. Hedges, I'm good, ok, I'm directing this.

Mr. Rossi stated he wanted to talk about construction. Need some help here. We are about to go into



a Board Meeting to approve a baseline, which has a construction goal, which is perfectly fine with me except when I look at actuals. What is it that changes the ability to deliver those numbers in a much greater way than have been delivered in the past, in a short period of time that you have to make that turn around? I need some help with that because we are about to vote on that but as we discussed at the Director review we talked about that. In looking at the numbers again in the last two months, give me some help on how that happens? Mr. Kelly replied getting things moving on the ground. The numbers reflect, in part, areas that have been stuck. With the new team, Mr. Hedges is bringing down Legal, Engineering and ROW down to the field every two weeks. They go through issues on the ground and they expedite decision making going forward. When you move forward, you get through construction. When you open more and more construction sites, you spend money. As you guys went through the annual budget expenditures for the last two years, 55% roughly, 57%, maybe this year 60% or so, that reflects to me a lack of progress on the ground. So I think the biggest thing that you are going to see is progress picking up, expediency of activity. That is why Ms. Assouri is in ROW. Why Don Odell moved over there. That is why Mr. Hedges goes down with the team every two weeks to review issues, to make decisions, and get moving on the ground. Then we open more sites, we get through and we spend money. Construction moves forward. For your next year, if we spend 55% of the budget, I will be in a little bit of trouble with the Board. My expectation is that we will not be in that circumstance.

Director Camacho commented that there seems to be a disconnect though when you look at the activities with construction. If you took the twelve months May to May peak and you will see that construction is actually not ramping up but in fact it is ramping down and the trend is down but yet you have expenditures going up. So is that a cost of overhead going up? Mr. Hedges replied no. These construction projects have been quagmired in multiple year issues. They have picked the low hanging fruit, right now, and now we are basically facing tough issues. It starts with CP 2-3 with even getting work started. It is taking a project management approach and that is sitting down with the contractors. You identify what are the critical parcels. The critical parcels are those parcels that you need right now to get over these road blocks. That is what the focus is. For CP1, I wanted to explain the headway that Ms. Assouri has made with regards to AT&T and PG&E and their joint use agreements. The summit that we just held with PG&E and worked out a lot of issues with regards to our provisional sums that were costing us a fortune, us trying to break some of these road blocks. In CP 2-3, we are meeting right now with the executives of Dragados/Flatiron and working through the issues of how to get through some of these two and three year issues with PG&E to get them underway, to get them working. It is slow, a methodical approach. It is taking a systematic approach in doing this. That starts predominately, as Mr. Kelly alluded, to a new organization, clearly defining roles and responsibilities. Having the ability to plan for our future but yet having the ability to right now to focus on our immediate needs. You will see that in August, with the PMP group coming out. Director Camacho asked if construction then will pick up? Mr. Hedges replied yes. It is going to be slow. Right now we are really working on some tough, tough issues. CP 1 actually got stalled. When we knew about it, it was eight, nine months ago. There are not new issues, these are old issues. Director Camacho asked over a year ago? Mr. Hedges stated it was predictable. Look at their schedules. We have been focusing on taking on these issues, looking at four, five spots, and figuring out what they need to start back to work at full-swing. Getting CP 2-3 working, it is going to be amazing if we can get CP 2-3 by the start of July, getting them into four or five spots. Taking and working with CP4 with the same approach. Getting their designs completed, critical modernizations, with some other issues then start advancing these contracts. This are not new issues, these are old issues.

Mr. Rossi stated these issues are fine, I don't think that that's what's important. If you look at the numbers, and I don't disagree with what you've said, if it is realistic to assume that given all the things that happen and you correct them, no matter how many people you put in the field to deal with the

issues, that you can ramp up that kind of construction to get to the end game that you are talking about. If you get to 80%, that is pretty good by the way. I am trying to understand the realities of that projection of all the things you have. One of the things that this program has experienced, which has not been good, is consistently projecting things to happen by certain dates and it does not happen. There is only so much credibility. Mr. Kelly has immense credibility in this city so let's think about it because the numbers are geometrically increasing. That is as hard to find in the history of mankind in these types of projects where you have that kind of geometric growth. Given what you just said about the things that need to be fixed, how long they take to fix, they are almost structural as we sit, doesn't mean they can't be fixed but I can fix something quicker that isn't structural. All I am asking as a Director is as we go into that meeting that it is clear that these projections are somewhat aggressive. For someone to say that they are not, means that they are not looking at the numbers. It does not mean that they will not be achieved. Let's bracket it so we don't leave people with the wrong impression. Let's be clear about it. When you look at the budget and performance, there is no way in this lifetime if you wanted to run a Monte Carlo, you would get less than 10% to achieve that number. Mr. Kelly commented that is certainly true if past practices continue. Mr. Rossi stated it would be even worse. I am not suggesting that you don't have the right practices. I'm saying with the timeframe you have to make it happen, as you present this to the Board and the public, let's be clear that it is an aggressive goal that you have every intention of making but let's not leave any doubt in anyone's mind that it's not a lock. Mr. Kelly stated we should be clear. The baseline is a living, breathing document. We are bringing this forward because we have to align the program to a direction, to a purpose and to objectives and goals. We talked about that broadly in the business plan. The baseline is now the management document to go down that path. We said in the business plan that the review of the numbers and schedule is an ongoing exercise that we do all the time. We are going to continue to update publicly, to you all, to the legislature with a project update report due in March. I said in the business plan and I directed a cost estimate review that is underway. It is being conducted by the ETO and will be done later in the year with updates through the March process with the legislature and to you guys along the way. There are no shortage of challenges and I am not guaranteeing anything. We are putting together the program, the people, the organization to move this forward and get the work done. Mr. Rossi said that is great. Mr. Kelly stated we are going to report to you along the way. Mr. Rossi stated that he did not think any of the Board Members had an argument about that. Just being cautious, right? Mr. Kelly replied yes. Mr. Rossi replied our experience is what it is. You have to operate geometrically to hit those numbers. You want to be clear with the Board and the public when this thing is presented. As you said, it is a living document and projections are projections. It is a stretch goal. Mr. Richards stated that he is good with Mr. Kelly's approach. It's taken time to put a team in place. Your direction gives us some confidence that we are going to get somewhere far beyond where we have been for several years.

Director Camacho asked Mr. Fong if there was any way to look at twelve months, take June to June or May to May, and graphically look at where we are with construction and really, what construction is costing us? We know what we are spending, so if you apply overhead to that, what that overhead number would be month by month. Mr. Fong replied, yes we can do something. Director Camacho asked if we could do that for the next meeting so we could know what it costs by month for that construction activity.

Mr. Rossi commented that he would like to meet the ETO. He asked if there was someone who could introduce them. Mr. Kelly stated he would. Prior to my arrival, you contracted for an Early Train Operator. Mark Evans is heading up that effort working with a team that is doing several things for us including guidance on how best to move forward as we enter into an operations period with maximum efficiency, an ability to maximize revenue as we get into operations. They bring international experience. Their company and firm runs high-speed rail generally in Germany. It is international expertise that we need here in America and here in California. They are also doing a

capital expenditures review of the cost estimates that were outlined in the business plan which we noted. We will look to them towards the end of the year for where that is, and also an analysis of our interim service segments that we raised in the business plan as potential ways to get service started even sooner. There is a lot of work that these guys have under their belts right now. Mark heads up that effort for us and I am working closely with him on a lot of things.

Mr. Evans thanked Mr. Kelly for the introduction. We started the contract in late December. Our focus right now is taking the opportunity to influence, as we move towards operations and maintenance, as the system is ready for testing and conditioning. At that point, our role will change from consultant to oversight of the testing and conditioning, and then our role will change to operator. For the consulting phase our goal is to influence the outcome of the system that is operable as an integrated network into the state of California and statewide rail plan. It is the system that comes out of the system. Also marketing and branding the system to the public as the cheap and fast way to get from Los Angeles to San Francisco that will act as the economic engine for the center of the state, bringing the entire state together as an economic environment. That is important to us because there will not be enough ridership just from Los Angeles to San Francisco. Ridership has to start there but eventually it will be generated by bringing businesses, universities, using the high-speed system, so that is our ultimate goal. Our short term goal is to bring our experience to the high-speed rail authority and provide that input into processes today as we move forward towards more responsibility. We can't say that the system was built without those shifts of risk from the Authority to ETO over time. We are looking at capital expenditures as Mr. Kelly mentioned. We are looking at the early operation of the Central Valley as a stand alone corridor.

Mr. Rossi thanked everyone for coming. Meeting ended at 9:30 a.m.