



California High-Speed Rail

BRIEFING: June 25, 2020 Board Meeting Agenda Item #6

TO: Board Members

FROM: Brian Annis, Chief Financial Officer

DATE: June 25, 2020

RE: Consider Providing Approval to Release the Request-For-Proposals to Resolicit Financial Advisor Services

Summary

Staff recommends that the Board approve the issuance of the Request For Proposals (RFP) for Financial Advisor services. Staff will return to the Board for approval to award the Financial Advisor services contract. This is an ongoing and critical workload to deliver the program. The future annual expenditure budget is being reduced by 28 percent with this procurement to reflect efficiencies and other costs reductions .

Background

The California High-Speed Rail Authority (Authority) is responsible for planning, designing, building, and operation of the first high-speed rail system in the nation, linking California's major population centers. Historically, a Financial Advisor has been an integral advisor to the Authority, dating back to 2009 with subsequent contract executions in 2011, 2014 and 2016. The Financial Advisor has been integral to the commercial and financial decision making in the past and will be critical for making decisions in the future.

The Authority's contracting process for the proposed RFP for Financial Advisor services will follow the requirements as set forth by the State Contracting Manual, administered by the Department of General Services.

Prior Board Action

In August 2014, the Board approved Resolution 14-22 to execute contract HSR14-01 for Financial Advisor services. HSR14-01 contract term was from August 2014 through June of 2017 for a total capacity of \$11.2 million.

In June 2016, the Board approved the award of the current contracts HSR15-92 #1 to KPMG LLC (Primary) and HSR15-92 #2 to Ernst and Young Infrastructure Advisors (Secondary) for such firms to provide Financial Advisor services to the Authority. These contracts were awarded through a competitive bid process and included a combined budget of \$40 million over a four-year period. The scope of the HSR15-92 contracts

included services such as: perform financial assessments and analysis of the project or segments of the project, assess existing financial plans and develop future funding plans for the project or segments of the project, identify and analyze potential funding and financing sources for the project or segments of the project, analyze and evaluate cash flow models, and provide financial procurement assistance during the various Program phases. In addition, the financial advisor has been utilized to assist with contract management policy development, financial systems scoping, and business case development for potential future operations.

In addition, and under the delegation of authority from the Board to the Chief Executive Officer, the Authority and KPMG executed an amendment to HSR15-92#1 to provide six (6) additional months of services— extending the contract to December 2020—and \$3.5 million in additional funding to continue the current Financial Advisor services as necessary to support the Track and Systems procurement, assist the Authority finalize its Business Plan for 2020, and ensure sufficient time for a transitional period.

In June 2015, the Board approved Resolution 15-11, which allowed the Authority to execute the Rail Delivery Partner (RDP) contract. The RDP contract HSR14-66 included task orders for some Commercial Services as well as for Economics that will be transitioned to the contract associated with the RFP being requested herein. From 2015/2016 until February 2020, the cumulative expenditures for the RDP Commercial Services and Economics was \$8 million.

Discussion

Specialized Financial Advisor services are necessary at the Authority because this Program includes certain complex financial issues where the required expertise is generally not available from civil service, and for project work that is temporary or occasional. These services include advice and review of large procurements to minimize fiscal risk to the state, consulting and analysis of funding approaches included in Business Plans and Funding Plans, and occasional reviews of accounting systems and reports for accuracy of reporting to the Board and the federal government. The Authority has relied on its Financial Advisor to provide time sensitive, industry specific, and high-speed rail experience-based information in order to help the Authority make informed commercial and financial decisions and for economic analysis on the impacts of the Program for the economy. Additionally, the Authority Board has directed the Financial Advisor to perform special studies and analysis, such as the Central Valley Business Case, which the current Financial Advisor completed in early 2020.

The Authority is undertaking an effort to re-procure Financial Advisor services due to the upcoming expiration of the current contract. This proposal includes a 28 percent budget reduction for annual Financial and Commercial services through generating efficiencies and consolidating resources from multiple contracts, through utilizing additional state staff where the workload can be shifted, and through other cost savings. The current Financial Advisor contract will expire on December 31, 2020, and to ensure uninterrupted service, the new Financial Advisor contract would begin in the Fall of 2020 allowing for adequate transition time with the new contractor. The new procurement is for a four (4) year term and a budget of \$36 million. The budget for this contract is within the Program's baseline.

This procurement will continue the historical Financial Advisor services for the Authority, but also create management efficiencies by combining resources from three separate contracts into one. Currently, the Rail Delivery Partner contract and the existing Financial Advisor contracts (2) provide support resources to the Financial Office. By combining relevant services from these three contracts, the Authority streamlines its contract management responsibilities and creates efficiencies for the Program. Additionally, the Legislature approved the Administration's Form-to-Function budget proposal to shift certain consultant work to new state staff – this change will help integrate more state-staff participation in certain aspects of the Financial Advisor work, where the civil service has the skills to perform the function.

Management of this contract will be within the Financial Office and overseen by the Chief Financial Officer. The new Financial Advisor procurement will include the following services:

- **HSR Commercial, Planning and Procurement Advisory Services**
 - Provide strategic commercial support and advice to the Authority
 - Analyze and evaluate delivery methods for the Program
 - Provide commercial support during major procurements like Track and Systems
- **Financing and Funding Advisory Services**
 - Perform funding scenarios and fund source analyses
 - Assist with funding plans including Proposition 1A “part c” and “part d” plans
 - Analyze potential financing sources and structuring plans, including alternative and innovative financing mechanisms
- **Business and Economics Advisory Services**
 - Prepare Economic Impact Analysis Report
 - Prepare Fiscal Impact Analysis Report
- **Project Financial Advisory Services**
 - Provide expertise and advisory services for the Authority’s Financial Office and its branches
- **Contract Compliance Management**
 - Invoicing, small business reporting requirements, and performance reporting for the contract

This RFP is required to provide the Authority with uninterrupted financial, technical, and commercial expertise to support the Program that is scaling at a rapid pace to deliver the nation’s first High-Speed Rail System. The duration of the contract term will allow for up to four months of transition (if needed) to ensure uninterrupted advisory services and four total years of services.

Overall, this new RFP will recognize an approximate 28% efficiency gain over the existing Financial Advisor and applicable RDP services. The current average annual budget adjusted for inflation is \$12.5 million and this request budgets for \$9.0 million.

Rationale for Continuing to Contract a Financial Advisor

The contract awarded from the requested RFP will directly support the Authority’s Financial Office in executing its responsibilities for the Authority.

The Financial Office has oversight responsibility for Program financial activities over four primary objective areas:

- Assessing the financial impact in terms of budget and cash flow
- Ensuring procurement strategies are in accordance with the Authority’s Business Plan
- Assessing the commercial impact on the future enterprise value
- Ensuring that sufficient public funds are available to pay bills and used appropriately

Commercial viability of major upcoming procurements is essential to the long-term success of the Project and the expertise provided by the Financial Advisor is required to ensure the procurement packages are released with future commercial viability. Technical resources for the Financial Office are also needed to continue to improve operations and efficiency; and ensure the data upon which management decisions are being made are accurate and of high quality.

The risk of not having a Financial Advisor at the Authority is considerable. Without a Financial Advisor, the Authority would be at risk of not procuring commercially viable tracks, systems, rolling stock, civil works, and other large procurements, all of which could lead to considerable liabilities on the State in the future as commercial viability will be essential in attracting and realizing favorable returns from an Operator. Finally, the Financial Advisor provides expertise not found within State civil service classifications and provides resources to support workload that is short-term in nature. In addition, the evolving nature of this Project requires the Authority to utilize some resources for specific, technical and short-term or limited in use workload, but critical to the completion of the project or project segments.

This is an hourly rate plus other direct charges reimbursement contract with a ceiling (not to exceed) on the total contract amount. The contract award will be made to the most responsible bidder with the highest combined weighted technical and cost scores among qualifying proposals. The RFP and resulting contract will contain a 30-day notice termination clause and require compliance with the Authority's Small and Disadvantaged Business Enterprise Program and the applicable thirty percent (30%) participation goal for Small Businesses, inclusive of Disadvantaged Business Enterprises and Microbusinesses.

Included for the Board's review is a copy of the proposed RFP and key dates of the RFP include the following:

- RFP Release/Advertise Solicitation on Bidsync/Authority's website – June 25, 2020
- Deadline for Written Questions – July 9, 2020
- Deadline to Submit Proposals – August 3, 2020
- Mandatory Consultant Interviews – Week of August 10, 2020
- Notice of Intent to Award – August 25, 2020
- Contract Start Date – Fall 2020

Budget and Fiscal Impact

The funds associated with this request are from state sources. This request does not change the total program budget as funding for this request was included in the 2019 Program Baseline.

2020-21 Fiscal Year Budget

Contract Name	Contract Number	Current FY Contract Budget	Budget Change	Funding Source
Financial Advisor	FUT1101-11000-1	\$0	-\$7,653,000	State
New Financial Advisor	TBD	\$0	+\$7,653,000	State
Total			\$0	

Total Program Budget

Contract Name	Contract Number/Budget Allocation	Current Total Program Contract Budget	Budget Change	Funding Source
Financial Advisor	FUT1101-11000-1		-\$36,000,000	State
New Financial Advisor	TBD		+\$36,000,000	State
Total			\$0	

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: Brian Annis, Chief Financial Officer	Signature verifying budget analysis: Original Signed 6/18/2020
Reviewer Name and Title: Alicia Fowler, Chief Counsel	Signature verifying legal analysis: Original Signed 6/18/2020

Recommendations

Staff requests Board approval of the Request for Proposals solicitation for Financial Advisor services.

Attachments

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