



BRIEFING: January 12, 2016 BOARD MEETING AGENDA ITEM #4

TO: Chairman Richard and Board Members

FROM: Russell Fong, Chief Financial Officer

DATE: January 12, 2016

RE: Consider Releasing a Request for Proposals to Resolicit Financial Advisor Services

Background

Staff of the California High-Speed Rail Authority (Authority), in adherence with the policies of the Authority's Board of Directors (Board), seeks Board approval to procure the services of a Financial Advisor through a Request for Proposals (RFP). The RFP is a proposed four year contract not to exceed \$40,000,000.00 in addition to the current Financial Advisor contract. The current contract will be terminated upon the award of a new Financial Advisor contract.

In fiscal year 2013-2014, the Authority had over \$7 billion in appropriations between Proposition 1A and Federal Funds. However, the Financial Office had less than 20 staff total between Budgets, Accounting, Grants and Contracts units. The Authority was relying on limited resources from the Program Management Team contract to assist with tracking expenditures, monitoring funds, and requesting payment/reimbursement from the Federal Railroad Administration (FRA). There were limited reports available that illustrated the day-to-day financials of the Authority, which were manually generated with Excel. Processing payments proved difficult due to the structure of the budget and limited availability of state funds and staff. Relaying financial information in usable formats was also challenging. At that time, the Authority had a Financial Advisor under contract that was expiring in the fall of 2014 and still had significant work to do to create a fully functioning and efficient financial office.

The Financial Office's primary goals were to build a solid foundation for the Financial Office, and bring financial transparency and ease of use of financial data to the project. With the assistance of the existing Financial Advisor, the Financial Office created stability and credibility for the Project's financial data. The foundation that was established to reach today's current level of transparency and data availability was difficult and time consuming to build. The Board's direction to produce higher quality financial reports and accountability helped shape the Financial Offices's direction and makeup and resulted in a strong foundation for the office. However, with the project on the precipice of major capital funding decisions and opportunities, as well as new challenges being presented, the Authority needs to procure a new Financial

Advisor contract that will support the next phase of the project.

Existing Financial Advisor and the Need for a New Financial Advisor Contract

In August 2014, the Board approved the award of contract HSR 14-01 to the current Financial Advisor which was the result of competitive bid, RFP HSR-1401. The responsibility and activities of the Financial Advisor are for staff augmentation and specialized technical support to the Authority for:

- Financial and performance reporting
- Back office operations support
- Development of financial system requirements and internal controls
- Overall business planning
- Segment analysis and planning
- Market outreach
- Procurement planning and execution
- Funding and financial analysis

All of these services strengthen and support financial systems and processes for the overall Business Plan funding strategy under Prop 1A, Cap and Trade, and ARRA federal funding grants, enabling the Authority to carry out its work of planning, building, and operating a high-speed rail system as outlined in the 2012 and 2014 Business Plans.

Although the scope remains the same as the prior Financial Advisor Contract, several factors have led to the need to rebid the current contract. First, the Financial Advisor has been integral in the transition from the state legacy CALSTARS accounting system to the new statewide mandated FI\$Cal System. The Authority is part of Wave 2 of FI\$Cal which went live in August of 2015. As with any large scale system migration, there is a significant amount of preparation and integration work involved. With the Authority, the workload to transition to FI\$Cal has been exhaustive and labor intensive. The Financial Advisor has been the hub of project management for the Authority's FI\$Cal migration and has helped coordinate, implement, reconcile and complete tasks for the project. The Authority currently must continue to utilize the legacy accounting system, CALSTARS, to process payments, closeout months, and reconcile accounting reports as well as maintain the Board Reports. The need to maintain dual systems, CALSTARS and FI\$Cal, for accounting and payment purposes and reconcile the two has been a challenge mitigated by the Financial Advisor's assistance. Without the extensive use of the Financial Advisor for FI\$Cal migration, the Authority would not have made the significant progress it has made to date.

In the FY 2014/15 Budget, the Legislature appropriated funds from the Cap and Trade program for the Authority. With this new continuous funding stream, the Authority has been presented with the opportunity to develop a strategy to accelerate the delivery of the program, which could potentially save the State billions of dollars over the life of the project. The impact of Cap and Trade funding was not fully understood at the time of the current Financial Advisor contract award and has necessitated the need for more in-depth financial analysis. Subsequently, the hours expended by the Financial Advisor to cover the impact of Cap and Trade, in conjunction

with the augmentation of state staff, has been extensive. In addition, the budgeting, planning and reporting requirements for the program have increased in volume and complexity as the program has started construction, new funding sources have arisen, and technical projects (namely FISCAL) have provided additional challenges.

In addition to working with new technical systems, the Financial Advisor must also work closely with the Authority's partners, including the Rail Delivery Partner (RDP). The Authority awarded the RDP contract on July 1, 2015 to assist moving the high-speed rail planning efforts into delivery of the system. The services provided under the current Financial Advisor contract are also critical in assisting the Authority in working closely with the RDP in carrying out the work plan outlined in the Authority's Business Plan and to perform the critical financial analysis for segments of the high-speed rail based on the construction, operating and maintenance cost estimates, as well as revenue and ridership projections.

The scale of the project requires public funding, both State and Federal, but it is also the objective of the program to leverage private sector approaches and delivery efficiencies wherever possible and maximize the opportunities for public/private partnerships (P3) to reduce costs and risks to the Authority. It is critical that the Authority's 2016 Business Plan be approved and implemented in the next 3 years to meet the schedule identified for the Program. The new Financial Advisor contract will include tasks related to performing additional in-depth analysis required in order to implement a delivery, funding and financing plan to support the first operational segment of the system. The new Financial Advisor will also provide support in the evaluation of proposals for design-build construction contracts by providing financial capacity analysis to determine if each bidding team has the financial capacity to deliver the project. Additionally, the new contractor will provide analysis for ancillary revenue opportunities and develop approaches for planning and construction to contribute to capital funding needs. The new Financial Advisor contract will also include tasks related to providing support to the Authority's staff in working with the Department of Finance in the deeper assessment of funding options and budget impacts of alternative courses of action as a result of additional funding sources and financing opportunities. The combination of these factors has significantly accelerated the use of the Financial Advisor staff and contract hours during FY 2014/2015 and FY 2015/16.

Part of the CFO's role is to enhance the internal controls and business processes of the Financial Office and to ensure the financial integrity of the project. With the anticipation of private sector investment and funding for this project, financial integrity is crucial to be able to attract investors and attain favorable terms for the Authority. Having a world-class Financial Advisor on board for the next four years will be a significant step in assisting the CFO and the Authority with enhancing internal controls and maintaining financial integrity. In order to mitigate the risks involved with private sector investors, the Authority needs to procure a new Financial Advisor contract. The existing Financial Advisor contract has been valuable to the Authority and has been critical in developing internal controls, implementing policies, procedures, and the best practices required to enhance the financial integrity and accuracy of the Financial Office.

Discussion

Authority staff seeks to re-solicit Financial Advisor services to refine, identify, model and implement innovative financing alternatives. Subject to the review and approval of the Department of General Services, the RFP requested contract is a total amount not to exceed the budgeted amount of \$40,000,000 over a term of four years.

This is an hourly rate plus cost reimbursement contract with a ceiling on the total contract amount. The contract award will be made to the two highest responsible Bidders with the highest combined weighted technical and cost scores among qualifying proposals as Primary and Secondary contractors. The contracts will have the condition that the highest scored contractor (Primary Contractor) may receive all Work Authorizations. If the Primary contractor does not accept the Work Authorization and/or cannot complete the work described in the Work Authorization, the Authority may elect to send the Work Authorization to the next highest scored contractor (Secondary Contractor). The RFP and resulting contract will contain a 30-day termination clause and require compliance with the Authority's Small and Disadvantaged Business Enterprise Program and the applicable 30 percent participation goal for Small Businesses, inclusive of Disadvantaged Business Enterprises and Microbusinesses.

The responsibility and activities of the financial advisor will be to assist the Authority in carrying out its work of planning, building and operating a high-speed rail system as outlined in the 2012 and 2014 Business Plans. Among the key responsibilities of the Financial Advisor in the coming years will be the identification of innovative financing opportunities, assistance in the structuring of concession and other contracts, and assisting the Authority with outreach to and interaction with private sector investors.

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

- RFP Release/Advertise Solicitation on Bidsync/Authority's website – January 15, 2016
- Deadline for Written Questions – January 25, 2016
- Deadline to Submit Proposals by 3:00 p.m. – February 15, 2016
- Mandatory Consultant Interviews – Week of March 14, 2016
- Notice of Proposed Award – April 14, 2016
- Contract Start Date – Spring 2016

This recommendation considers the following opportunities and risks: loss of consistency/continuity, stakeholder relationships, competition, potential conflicts of interest or protests, loss of institutional knowledge, and imminent disruption and delay. This qualitative risk-based assessment was performed in consultation with the Authority's Chief Deputy Director, Chief Financial Officer, Director of Risk Management, Project Controls and Legal Counsel.

Recommendations

Staff recommends that the Board direct Authority staff to proceed with the issuance of a new RFP solicitation for Financial Advisor Services.

Attachments

- Draft Resolution #HSRA 16-02
- HSR#15-91 RFP for Financial Advisor Services
- Resolution #HSRA 14-22, Awarding the Current Financial Advisor Contract