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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
January 18, 2017**

**Sacramento County Board of Supervisors
Hearing Room 3
700 H Street
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on January 18, 2017 at 8:30 am.

Committee Board Members Present:

- Mr. Michael Rossi, Chair
- Mr. Tom Richards

Authority Staff Present:

- Mr. Jeff Morales, CEO
- Mr. Tom Fellenz, Chief Counsel
- Mr. Russell Fong, CFO
- Mr. Jon Tapping, Director of Risk Management and Project Controls
- Mr. Scott Jarvis, Chief Engineer
- Ms. Paula Rivera, Chief Auditor
- Mr. Mark McLoughlin, Director of Environmental Services
- Mr. Paul Engstrom, Third Party Manager
- Mr. Alan Glen, Director of Real Property

Rail Delivery Partner Staff Present:

- Mr. Gary Griggs, Program Director

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

Agenda Item: December 2016 Meeting Minutes

- No comments.

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

- None.

Agenda Item: Current Issues

- Mr. Rossi referred to the recent Los Angeles Times article, which he preferred to discuss at the end of the meeting.

Agenda Item: Financial Reports

Executive Summary

Mr. Rossi requested that Mr. Fong begin the discussion with the Executive Summary. Mr. Fong pointed out there were two aged invoices in January. He stated that it's never good to have aged invoices but they represented less than one percent of all invoices for the period. He further stated that late payment penalties from those late invoices totaled only \$134.00. Mr. Rossi noted that Accounts Payable performance remained impressive.

Mr. Fong then referred to the ARRA spend. The ARRA grant total is \$2.553B and as of Jan 10th, the Authority has spent \$2.237B or 87.6% of the total, leaving \$316M or 12.4% of the grant remaining with approximately five months left. The required burn rate to spend that on a straight line basis is \$57.5M per month. The Authority's cash burn rate for the last three months is about \$87M, \$30.5M higher than the straight line basis burn rate.

Executive Budget Summary Reports

Mr. Rossi stated that year-to-date spending looked good. Mr. Fong replied that it was better than last year. Mr. Rossi asked about the vacancies across the offices, particularly the 12 vacancies in the Program Delivery office. Mr. Jarvis replied he was aware of the vacancies and said his office also had some internal promotions. Mr. Rossi said that four of the 12 vacancies in Program Delivery office were in the Environmental Branch, and that those vacancies would require the existing employees to do some very heavy lifting to meet the aggressive due dates in that area. Mr. Griggs noted that the effect of the vacancies might be overstated because the report does not include consultants. Mr. Rossi asked that we footnote the report to make that clear in the future.

Mr. Jarvis said we are working on hiring good people. Mr. McLoughlin said we're using the private sector because we must fill these positions. Mr. McLoughlin said they were close to hiring one person from the private sector, which would help us with what we're trying to achieve from a qualification perspective, not to say there aren't State people who were qualified. Mr. Rossi stated he suspected there were. Mr. McLoughlin agreed. Mr. Griggs said that as a general rule, we've tried to fill permanent-type functions with State positions for the long term, and we try to fill a lot of the short-term functions with people from the private sector. Mr. Rossi stated he did not have a problem with that.

Projects and Initiatives Report

Mr. Rossi asked to review the items in yellow. The first item, Northern CA Region San Francisco to San Jose, was yellow and the trend was sideways. Mr. Rossi asked Mr. Griggs how they planned to take care of the problem. Mr. Griggs replied that a lot of these schedule issues were driven in part by our partners and other agencies. He stated that we were looking at the resources to be brought to bear and we have a pretty aggressive schedule, which is putting a lot of pressure on the reviews that we have to get back from the other agencies. We are working very closely with them. Mr. Rossi asked when it would be fixed. Mr. Griggs replied that they were going through a very detailed review of each of the environmental sections with the Federal Railroad Administration. Mr. Rossi asked again when it would be fixed. Mr. Griggs replied that by next month a review of those schedules would be brought forward. He further explained that we had quite a number of them due in December 2017, that we are reviewing them, and some will be moving into 2018. Mr. Richards requested that next month, Mr. Griggs have the information to answer Mr. Rossi's question about how to resolve the problem.

Mr. Griggs said we had pretty much gotten the top three priority project schedules done, including the LGA, Wye and San Jose to Merced. He said they would be able to report on those, and the other sections as well, to see how we can set updated timelines. Mr. Rossi asked if that could be on the agenda for the next meeting. Mr. Griggs replied yes, that's what we had said at the December meeting and they were still planning to come back to that issue at the February meeting. Mr. Griggs explained further that just to be clear, they didn't have the information because they were still in the process of discussing it with the FRA and all work was still continuing with all the necessary HSR resources.

Mr. Rossi asked if that was the same for CP 2-3. Mr. Griggs replied yes, we continue to see schedule pressures, especially driven by ROW. We continue to have folks focused on those schedules as well to make sure we minimize delays. Mr. Rossi stated that what was shown on the report indicated it is in yellow and sideways and that would indicate we are not where we should be. He further stated that we need to find out what is going on and give it some thought since we are missing our deadlines. Mr. Griggs replied that we are going through reviews of each of the contracts in terms of estimates at completion and schedules.

Mr. Rossi asked if Mr. Griggs would talk about when we are trying to bring forward the reviews for the CP contracts, and when the CP contract reviews would be done. Mr. Griggs replied that CP1 would be ready for review before the next meeting and that CP 2-3 and CP 4 were in process. They won't be ready for the next meeting but should be ready shortly thereafter. Mr. Rossi asked to make a note that this will be reviewed in April. Mr. Jarvis was asked if he could clarify the contract completion dates. He said that unless there are change orders with time extensions by the Authority (such as the 17-month extension on CP1), it was the contractor's responsibility to make the dates. The remedy if they don't make the dates is liquidated damages, although it is a team effort to complete the work on time. Mr. Rossi stated that he was not interested in liquidated damages. Mr. Jarvis agreed. Mr. Rossi stated liquidated damages in one section won't do any good for another section that is impacted in terms of schedule. He stated he appreciated what Mr. Jarvis had said but that is not where he wanted to end up. Mr. Jarvis said he understood and we planned to finish on time.

Mr. Rossi then referred to the next page of the report, page three. He stated it seemed there was a similar timing problem with Southern CA Region, and a similar environmental issue with Burbank to Los Angeles and Los Angeles to Anaheim. Mr. Griggs agreed that yes, they were the same issue.

Mr. Rossi moved on to the Human Resources project on Hiring and Staff. Mr. Fong said that last year we averaged a 20% vacancy rate and this year we were in the teens. The challenge was to get below 16%. He stated that at one point, we were actually at 13% so we had made progress. The trend arrow was down because we actually went from 13% to 16%.

Mr. Rossi moved on to the technology-related projects. He said all the technology-related projects were either yellow (caution) or red (escalate), a total of five projects. The Risk Management System was in yellow and trending up - which was a good sign - but all the rest were in red and going down. Mr. Rossi asked what it would take to turn that around. Mr. Griggs replied that he had good news to report on some of these. Going down the list, starting out with page four, we procured Oracle Fusion for the Financial Management system. That was now in place so we could start setting up a financial management information system and make that transition over from FI\$Cal. Mr. Rossi said that was good news.

Mr. Rossi asked why the budget rating on the Financial System was yellow. Mr. Fong replied it means only that it's early in the project. Mr. Rossi said that made sense. Mr. Griggs moved to page five, second item down. He said that Amazon Web Service was completed and would be removed

from the next report. He referred to the next project, geoAmps, which is the ROW Management System. We have that system in place now and Mr. Glen would be able to start using and populating it. Mr. Glen said the contract was executed and they were in the process of migrating data over to the new system and testing would occur in the upcoming months. Mr. Rossi asked when Mr. Glen thought we would actually start using it. Mr. Glen answered they would have to run the systems in parallel for three or four months, and then probably mid-year they would have it fully implemented in the fall.

Mr. Griggs moved on to the Asset Management System. He said the Maximo system for Asset Management had been put in place and was in use. He stated that this was a new Asset Management system that was really state of the art and was getting attention from other agencies. Mr. Rossi asked Mr. Griggs to define asset management. Mr. Griggs replied that the system basically assesses all of the assets in the system, everything that the Authority owned and operated – the track, the trains, the power stations – all the assets would be in the system. That would allow us to keep track of it, manage it and understand what we have in terms of process and how we are managing the assets. Mr. Rossi asked if Mr. Griggs could show him one of the reports. Mr. Griggs replied yes. Mr. Griggs stated that this Asset Management project could come off the list.

Mr. Griggs moved on to the PMIS Cost Management System. He stated they were still working on getting the system up and running, that it was pretty much in place but there was a lot of work to do in terms of the data migration into the system as we transferred over to that system for cost management. That one was scheduled now to be complete in August.

Mr. Rossi stated that all of the projects discussed should really be yellow. Mr. Griggs replied yes, except that the Cost Management System, in terms of the timeline, would be red. Mr. Rossi said he understood and stated he was asking about the environmental mitigation, Asset Management, and ROW. All of those that were green really needed to be yellow because they weren't fully tested. Mr. Rossi said he wanted to make sure that Mr. Griggs changed those back to yellow until they were fully vetted and fully utilized.

Mr. Rossi asked to talk about EMMA 2.0, which was yellow. He asked if the system had been fully tested and Mr. McLoughlin said they were currently in beta. Mr. Rossi asked that all those projects discussed be changed back to yellow.

Mr. Rossi asked for an update on the PMIS projects. Mr. Griggs said the challenge was to migrate the historical data out of the old system into the new system, the EcoSys Cost Management System. That was quite a challenge when we have to go back a number of years, to migrate all of that data forward, that work was continuing but it wasn't where they want it to be. He stated they were working hard and had a lot of people working on it. Mr. Rossi asked if the new completion date, specifically for the PMIS Schedule Management, was realistic. He asked why the rating was still red when the end date was on 12/10/2016. Mr. Griggs said it should not be, that was an error. Mr. Richards commented that the reports should be reviewed more rigorously before they were put in the reporting package. Mr. Griggs agreed.

Mr. Rossi asked that a corrected report be presented for review at the next meeting with an update on all the IT projects.

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

Items discussed:

Operations Report

Mr. Rossi turned to the Operations Report, Executive Summary, ROW. Mr. Rossi said that report reflected great work. He read from the report “as of that date, the Authority has secured legal possession of 979 parcels, with 920 delivered”. Mr. Rossi asked 979 out of how many. Mr. Glen replied 1,615 parcels. Mr. Rossi stated that on a gross number basis, it didn’t look great. He said he wasn’t saying it wasn’t great, but he needed to explain it clearly so it would be on the record. Mr. Glen agreed. Mr. Glen stated that the number was across CP1, CP2-3 and CP4, so obviously we were doing better than 70% delivery in CP1, and less on CP2-3 and CP4.

Right-of-Way (ROW)

Mr. Rossi moved onto page 11, ROW – CP1ABC Historic Performance. Mr. Rossi commented about the odd uptick in the planned number for November. Mr. Glen replied as you recall, the plan is what was left over from December 2014. Mr. Rossi stated he thought we were going to review this piece, smooth it out. Mr. Glen stated that the blue line comes from the data on page 10, that you can see the uptick there in November, just below the 709 box. Mr. Glen said that they held that line consistently since September 2015 as a historic plan. Mr. Rossi asked if it should be re-forecasted since it’s not happening. Mr. Glen replied we could, previously we wanted to hold that as the historical perspective. Mr. Rossi stated that he did not want to drop the historical values; he wanted to see what could be done with the plan since obviously we weren’t making that number. Mr. Glen agreed and pointed to the dashed green line on page 10. That was the forecast. Mr. Rossi said thank you.

Mr. Rossi moved onto page 34, Total ROW Expenditure by Month. Mr. Rossi asked if we will stay pretty close within the expenditure forecast. Mr. Glen replied he was within his budget of \$943M, with some of the construction packages running a little bit higher and some a little less, but we were within budget overall.

Project Development

Mr. Rossi moved onto page 44, Environmental Milestones Schedule (to ROD). Mr. Rossi asked if we were done with items one through three. Mr. Griggs replied yes. Mr. Rossi stated that it looked good and asked if the dates for items four, five and six were going to hold. Mr. Griggs replied they are currently under review as discussed earlier. Mr. Griggs said V to V includes San Jose to Merced, that they had been working very closely with the FRA to review the dates. That one looked like it would probably slide into 2018 but we don’t think it is going to have an impact on V to V.

Mr. Richards said also on the Board agenda for today was the Preliminary Preferred for the Wye as well as initial ROW services for this section, which was partly how we were dealing with any schedule changes that we’d see on the environmental documents. We could adjust for a schedule change, in part, by accelerating other parts of the program by getting a head start on it.

Third Party Agreements

Mr. Rossi moved onto page 59, Central Valley (Non-CP), North and South Executed and Unexecuted Agreements. Mr. Rossi asked Mr. Griggs if he was concerned about the unexecuted agreements. Mr. Griggs replied that these were Non-CP agreements, and that we did have agreements in place in the

construction packages for CP 1 – CP4, but in this case he believed we were actually getting out ahead because these were related to V to V and San Jose to San Francisco. He stated they were looking at lessons learned with the current construction package, as we want to get out ahead of ROW and third party agreements. We are putting in a lot of effort to get these in place before we go out. Mr. Rossi asked about V to V. Mr. Engstrom replied there was a correction to the data and it should be 81 instead of 63 unexecuted agreements. Mr. Rossi asked if 42 was the right number for the current quarter. Mr. Engstrom replied that yes, in two months there had been approximately 40 agreements executed for the V to V section. Mr. Rossi commented that was impressive. Mr. Engstrom agreed and stated that we were well ahead of schedule. Mr. Rossi said that was great and thank you.

Contract Management

Mr. Rossi moved onto page 67, CP 1 Contract Management – Schedule Performance Index and asked how to improve these numbers. Mr. Jarvis replied that the plan, represented by the dark blue line on the graph, was based on the contractor’s baseline schedule. We could change the plan to our updated schedule agreement that extends the contract by seventeen months. That would close the gap. As you know we got behind on CP 1, and we are actually progressing well, but we’re never going to make up that difference because of the 17-month time extension. The only way to fix it is to change the plan to what we are actually managing to right now instead of the original baseline schedule. Mr. Rossi asked to leave the plan line in and add a new one. Mr. Jarvis agreed.

Finance/Budget

Mr. Rossi moved onto page 83. As of November 30, 2016, the Authority has spent 28.1% of FY2016-17 budget, 83.1% of the federal ARRA grant, and 82.9% of the FY2014-15 Cap and Trade appropriation. Mr. Rossi commented that he did not understand the 82.9% of the FY2014-15 Cap and Trade appropriation. Mr. Fong replied that was just for FY2014-15 Cap and Trade, when we got the \$250M. Mr. Rossi asked if that \$250M is what was reflected in the report. Mr. Fong replied yes, and commented that he would add a footnote to the report.

ARRA Schedule

Mr. Rossi moved onto page 89, ARRA Expenditure by Month. Mr. Rossi commented that this was pretty straight forward and that the numbers looked pretty good.

CP1 Performance Metrics

Mr. Rossi asked Mr. Jarvis to explain page 3. Mr. Jarvis replied that it showed we currently have an 8.6% contingency amount as measured against the current contract value. Mr. Rossi asked if that should be 10% contingency and Mr. Jarvis said yes. Mr. Jarvis was asked if that was a reflection of the transfers that haven’t been made. Mr. Rossi commented that if contingency was less than 10%, you need to be doing a re-evaluation. Mr. Tapping replied that they were currently doing a re-evaluation. Mr. Rossi said he wanted an update on this at the next meeting. Mr. Tapping agreed.

CP2-3 Performance Metrics

Mr. Rossi moved onto page 3, CP 2-3, to the item in yellow. Mr. Jarvis explained that these construction management costs were high due to significant construction not starting yet on CP 2-3. The Design-Build invoiced amount is low and once the more significant construction occurs, this percentage will go down again. Mr. Rossi moved on to page 4, and asked if this was a similar issue for

schedule performance. Mr. Jarvis replied yes, once construction begins more significantly, that measurement will go up. Mr. Rossi asked if that was the same for Economic Benefits on page 6. Mr. Jarvis said yes.

State Route 99 Performance Metrics

Mr. Rossi asked if the schedule item on page 5 was the same issue. Mr. Jarvis replied yes.

CP-4 Performance Metrics

Mr. Rossi asked if the same for CP4, Design and Construction Support. Mr. Jarvis replied yes.

Final Thoughts

Mr. Rossi said he wanted to discuss the article this week in the Los Angeles Times, where clearly the capital spend was incorrect. This is not an issue of the FRA being wrong. We are partners with the FRA. We cannot justify not getting the facts right with the reporter of the LA Times. Capital spend was not anywhere close to what is being reported in the article as we sit with our assumptions.

Mr. Rossi said that when we get a report like that, and I said this before and I would like for this to be the last time, there should be an immediate memo to file that says we received the report and we don't agree with the report as it sits. We need to further understand what the actual issues are with respect to their assumptions. Then we look at our numbers, which we stand by, and point out where the inconsistencies and outcomes are, and we stand by our numbers and we are going to research this with our partner. It would be nice to have that in the file when we get these types of reports. Mr. Rossi asked if we could do that in the future. I want a copy for the Finance and Audit Committee, and I want it early.

Mr. Rossi thanked everyone for coming.

There were no further discussions and meeting adjourned at 9:12 am.