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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
February 14, 2017**

**Department of Healthcare Services
Conference Room 72.165
1500 Capitol Avenue
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board
met on February 14, 2017 at 12:30pm**

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
- Ms. Gay Knipper, Director of Operations

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

Agenda Item: January 18, 2017 Meeting Minutes

- No comments.

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

- None.

Agenda Item: Financial Reports

Executive Summary

Mr. Rossi asked that the discussion be focused on IT and ROW. The rest of the reports look pretty much in-line. Mr. Rossi asked Mr. Fong if he had anything to add. Mr. Fong replied he did.

Financial Reports

Mr. Fong started with an ARRA update. Mr. Fong stated that we have spent \$2.3B of our grant, which equates to 89% of the \$2.6B grant, which leaves us with \$291M left over which is 11%. If you look at a straight line basis, to hit our goal of the end of June 2017, we will need about \$61M straight line monthly burn rate. Our cash burn rate, the average for the past three months, is \$88M. Mr. Rossi asked for the last six months, what is the average burn rate? Mr. Fong replied that for the last six months, it is a little less than \$88M, closer to \$80M. Mr. Rossi replied that one is to assume that means we have even more contracts. Mr. Fong agreed. Mr. Rossi stated that it was unlikely that we won't hit that burn rate. Mr. Fong agreed. Mr. Richards asked if we slipped a little bit from last month? Mr. Fong stated yes. Mr. Rossi asked if that was primarily because of the rain? Mr. Morales replied yes and stated that is what we forecasted. We adjusted for forecast expenditures to anticipate a little bit of a slowdown in December and January so we are still on track because we did accommodate for that.

Mr. Fong moved onto the financial reports. Our admin budget is currently at 38% with 50% of the year completed. Our vacancy rate dropped slightly, from 16% last month to 15% this month, which is the difference of why we are at 38% of budget spent at 50% of the year. Capital Outlay budget of \$1.8B is at 35% spent, which is pretty much expected at this point in time. Mr. Rossi agreed.

Mr. Fong stated he was happy to announce that we have no Aged Receivables for this month. For Projects & Initiatives, which we will talk about more today, we have 34 Projects & Initiative that we are reporting right now, which is up one from last month's 33. I would like to highlight that last month we had four reds and we currently have eleven reds, again that will be part of our discussion with the IT issues.

Mr. Fong stated we have decided to put FIMS on hold after meeting with the state's FISCAL staff. It was determined that they are not ready to integrate with other systems at this point in time, so we are putting FIMS on hold. The good news is that we are going to use those KPMG resources and state staff resources to focus on the PMIS Project, again which we will talk about later. Mr. Richards asked if FISCAL knew when they might be ready. Mr. Fong replied no they did not and that everything is currently on hold. The large departments like EDD and DMV have been pushed off and are on hold. As soon as we have an update, we will share that information with the committee.

Mr. Fong announced that our secondary Financial Advisor Ernst and Young has joined our team. As you recall we have our primary financial advisor, KMPG. Ernst and Young will help us in key areas - one is governmental fund accounting but the big one is FISCAL. What I would like to point out with FISCAL, is that we are the largest state department currently using all three of FISCAL's modules - accounting, budgets, and procurement so we are in a new phase right now regarding the state. It also comes at a good time as the State Controller's Office is going to go live with FISCAL during the summer and that is going to be a massive statewide effort. We are able to bring some of the folks that worked on the FISCAL project through the EY contract and they are here to assist us so that is good news.

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

Items discussed:

Right-of-Way (ROW)

Mr. Rossi asked to know where we are on ROW. The numbers continue to look pretty good and asked if we think we can maintain that through V to V. Mr. Glen replied yes he believed so because we are going to take some of the lessons learned that we have had with CP1-CP4 and apply them over there so, as you know last month I came to the Board with surveying contacts. We have released the first RFQ for surveying and we are trying to get out ahead of it as soon as the preferred alignment is identified and we would do that mapping. We will come to you shortly with another procurement request for acquisition and appraisal services so that we can hopefully be in a position shortly after the ROD is adopted to be making first written offers rather than starting the process at that time. Mr. Rossi asked Mr. Glen how many parcels were going to be delivered monthly. Mr. Glen replied that we will be close to 40, as we have hit the last couple of months. Mr. Rossi replied that was impressive. Mr. Glen agreed. Mr. Morales added that we did cross the 1,000 parcel threshold last month. Mr. Rossi and Mr. Richards acknowledged.

Mr. Richards asked if there were any trends in terms of eminent domain actions. Are they increasing on a percentage basis or are they about the same? If they were to increase, how does that affect the schedule? Mr. Glen replied I don't think they are necessarily increasing. We have a process where thirty days after the first written offer, we initiate the eminent domain process in parallel with continued negotiations. The number of parcels (or percentage of parcels) remains the same going through that process. The number of settlements prior to trial continues to increase as we have gotten away from some of the opposition to the project. Mr. Morales added so far only about three percent of the parcels have gone through the full process. Mr. Glen replied even less than that, a very small fraction. Mr. Morales stated that even when we do initiate the eminent domain process, the goal is to still reach a negotiated agreement. Mr. Glen agreed. Mr. Richards asked if we had been successful at that? Mr. Morales stated that we have been very successful to date with that and only a handful have gone through the full process. Mr. Rossi stated that is a whole lot better than you would be led to believe by the noise in the system. Mr. Glen stated that there will be additional parcels that will get to that trial process. It takes time to get to that point but we do continue to have very good success in getting them settled prior to trial. Mr. Morales stated that a trial can be a painful process for property owners, for everyone. Mr. Rossi agreed. Mr. Morales stated that a trial does not necessarily mean it is an antagonist situation. The trial is about establishing value. Mr. Rossi and Richards agreed. Mr. Morales commented that it could just be difference of opinion and we can't reach an agreement. The law provides for a jury trial to ultimately award a value. Mr. Glen added that it is really a protection for the property owner. Mr. Morales agreed and stated that Mr. Glen and the team based on over 1,000 delivered so having gone through the whole process it certainly says we are coming up with values that are fair. Mr. Rossi thanked Mr. Glen and commented that he has brought the process a long way.

Information Technology (IT)

Mr. Rossi moved on to IT. Mr. Rossi commented that there are two projects that continue to show up as not hitting their original targets. As we look at the IT milestones, it is fairly clear that we have missed them and have missed them by what could be considered a significant amount of time. The question that we have to figure out is, when we look at the things that had to be done, who was in-charge of the IT piece? Ms. Knipper replied that she would respond to the questions from the Committee today. Mr. Rossi stated as we look at the report, and Mr. Richards might have a different view, it would appear that the timing seems to have been pushed out because of a specific item which is getting the initial parameters of what the system should be doing laid out clearly so you could then build the system. Is that correct? Ms. Knipper stated that it is. Mr. Rossi asked, if we can address that and get it done, seeing that the other items obviously got pushed out because of that item, do we know enough at this stage that we will hit those new targets? Ms. Knipper replied that we will. The way you described it, parameters are key. We needed business to develop their processes and procedures and hone those. Mr. Morales signed off on the records retention policy just a week or so ago. Now it is time that we document those work flows and put them in an automated system – further the development of EDMS, Contract Management, and Cost Management to meet the detailed needs for business.

Mr. Rossi asked if at this stage, the issues that we are presented with don't appear technical in nature. They appear managerial in nature and those have been and continue to be addressed. Is that correct? Ms. Knipper replied yes. Mr. Rossi stated if you get that piece done, we will move forward and it sounds like some of that has already taken place. Mr. Rossi asked what are we using to substitute for the systems that we are supposed to have by this time? Ms. Knipper replied that for the three critical systems right now, for EDMS and the majority of the projects, we are managing that in SharePoint 2010. We have a legacy system to manage those documents.

Expanding to Sharepoint 2016, expanding to the rest of the business is certainly going to give us more automation with respect to retrieving information, accessing information, and retaining it for the correct period of time as well. For cost, we have legacy systems that we use right now with Mr. Fong's group to generate the reports. You see the reports that we are generating on a regular basis, while they are manual, having EcoSys in place is going to help us automate those to get those out quicker and with better data integrity.

With respect to Contract Management, as previously mentioned, for the three big design-build projects, we are using Primavera Contract Manager today. We are planning on continuing to use Primavera Contract Manager beyond. It is about addressing the smaller contracts and our plan is to expand Primavera Contract Manager to address those contracts.

Going back to business, we finalized the procedures under Russ Fong's leadership. The CMO now has policies and procedures and training developed. With those in place, we can document the work flows and expand Primavera Contract Manager for those systems. What are we doing meanwhile – we have separate systems to track invoicing, separate systems to track the contract amounts and it is a bit manual, but we have a system in place to do it until we can build this integration. Mr. Rossi stated that he assumes we need to do this quickly because it is really labor intensive and fraught with the potential for error, resulting at some stage for Audits to have to audit for errors. We need to get this thing done on time so if we haven't gotten over the major hurdle, we're going to really pull out all the stops to make this happen. Ms. Knipper stated that we need to stick to plan. We do have an aggressive schedule but we have got one that we can achieve and we have got to stay within plan. One of risks with some IT projects is that you start to implement them, users, again business, looks at it and says they would like to do this or that. We have to stick to the scope.

Mr. Rossi agreed with what Ms. Knipper was saying and asked who was responsible for maintaining discipline? Ms. Knipper stated that we have an acting CIO, Patty Nisonger. Ms. Kahbody from Agency stated that the Authority's CIO left a few of months ago and we have been advertising the position but because of the urgency and wanting to move these projects forward quickly, we pulled Ms. Nisonger from CalTrans and she is temporarily sitting there, trying to move things along. Mr. Morales added that one of the advantages of the Governor's reorganization plan, which brought us under the Transportation Agency, is that we can more readily tap into other departments for assistance. Secretary Brian Kelly has been great, in terms of providing that to us, with Ms. Kahbody on point. Ms. Kahbody is helping oversee the development of protocols and ensure that we get the processes in place so that we maintain that discipline as we go forward and we have clear delegation and assignment of responsibility for scope as we go forward with these projects. Mr. Rossi asked if Ms. Nisonger was in charge. Ms. Nisonger replied yes.

Mr. Richards asked as you bring these components on-line, how intensive in terms of time and effort is the training portion? Ms. Knipper replied that it varies. For instance, for EDMS, we are not expecting that to take a lot of time for training but there is a requirement on EDMS where we expect our staff, in various functional areas, to confirm their retention schedules so that will take some time. We are planning to onboard five groups each month over the next several months. We have forty three groups total. Mr. Richards asked if forty three was correct? Ms. Knipper stated forty-three, either offices or branches and we are going to do it in eight groups. Mr. Richards said thank you.

Mr. Rossi stated that he would like to see these plans fleshed out and would like to know every month exactly where we are, to understand where we are really sliding. Ms. Knipper agreed. Mr. Rossi said thank you.

Project Development Schedule Update

Mr. Rossi moved onto the Project Development schedule. Mr. Rossi asked to focus on the Central Valley WYE, and San Jose to Merced projects. Those are the two we need for V to V. In the case of the Central Valley WYE, that has been pushed out a little bit. In the case of San Jose to Merced, it has been pushed out a fair amount which is fine. We didn't make those goals but it was a good try. Are these two now in agreement with the FRA as to these delivery dates? Mr. Griggs replied yes. Mr. Rossi stated that if that is correct, how does that back into the delivery for 2025? Mr. Griggs replied the San Jose to Merced is the critical one as opposed to the WYE but that record of decision date will still allow us to have operations in 2025 in accordance with the business plan. Mr. Rossi asked at this stage, with the extension of the time frames, in conjunction with the FRA, are we are still comfortable (barring getting sued, barring going from seven years of drought to a hundred year flood period, barring all of those things), our scheduling still looks good? Mr. Griggs replied yes. Mr. Rossi asked Mr. McLoughlin if he was comfortable with that. Mr. McLoughlin replied that he thinks the dates for the two are still aggressive but thinks they can be met. There is also public comment that we have to take into account in the process. We need to make sure we get the project description done the right way and get that completed so that we can move forward. Mr. Rossi replied ok. Mr. McLoughlin stated these days are still aggressive but thinks we can meet them and assuming that FRA is resourced the right way to respond to our deliverables.

Mr. Rossi asked Mr. Tapping if he had done a risk analysis on these two projects. Mr. Tapping replied that we are embarking on a risk analysis for the whole Valley to Valley section. Now that we have lockdown on the baseline, we can do a risk overlay. It looks aggressive. Mr. Richards asked when do you think the risk analysis will be done? Mr. Tapping replied that we would have to come back to the committee with that answer. Mr. Rossi stated that was fair and Mr. Richards said that if that occurs in

advance of the next meeting, please email us and let us know. Mr. Tapping replied yes. Mr. Rossi asked if it was that difficult to run, don't you just have to change the variables. Mr. Tapping replied that we have to rebuild the whole critical path schedule and apply risk. Mr. Rossi understood. Mr. Richards stated that they would rather he take the time to make sure you get it right. Mr. Tapping stated it will be an iterative process as well because we want to look at construction schedules, and those are being built out but we can start now as we have the baseline on the environmental and apply a risk overlay to it, to help us manage. Mr. Rossi asked if we are putting as many personal assets on this exercise as we can for these two projects? Mr. Morales replied yes. If you look at the chart, you will see in the schedules what they really reflect are two primary things that drive the increase of time in the schedule. As was mentioned, one is additional review time by the FRA, which we have accommodated in the schedule which we are working on with them. The second is an increased amount of time to go from draft to final in the document. On the two sections that you noted, we have agreement with FRA on how we can streamline that. These are the dates we are working toward but still think there are opportunities to bring it back. Mr. Rossi asked that even if it appears to be an aggressive schedule could it be made less aggressive as a result of continuing working with the FRA? Mr. Morales replied that part of the process is the change of how we did the Merced to Fresno and Fresno to Bakersfield. We are taking advantage of changes in federal law to do preliminary preferred alternatives earlier in the process, which should then streamline the process from draft to final. We have not reflected that in here and because we need to make sure we are delivering quality documents and we are doing all the things we have to assume so what we have done with FRA is make sure that we have enough time so that they can be comfortable and we can be comfortable. We are going to continue to push it. You may have seen the President issued an Executive Order streamlining environmental for high priority infrastructure projects. We are going to be seeking inclusion in that program to take advantage of where those opportunities could be across the federal government to help maintain the schedule. Mr. Morales stated that the V to V schedule is really what matters. Mr. Rossi agreed and wanted to focus on the Central Valley WYE and San Jose to Merced projects. Mr. Morales stated we are already looking at the environment dates on what we can do to maintain the overall project schedule and as Mr. Glen noted earlier, the step the Board took last month in adopting the early ROW work that is a migration measure to help keep the overall program on schedule. We have got things in the procurement of the design-built contracts that we can do to continue to manage it. This is one component of the overall project delivery and getting into service. We are looking at how they fit together. Mr. Griggs added that for San Jose to Merced, in addition to the risk assessment, we have seen some changes in the alternatives such as the San Luis reservoir and we are accessing the impacts on that project. We will obviously getting those factored into the assessments.

Audits

Mr. Rossi moved onto Audit and asked Ms. Rivera how we are doing with Audits. Mr. Rivera stated we are moving right along and that she has one report that will be issued at the end of the week and another that she hopes to issue before the end of the month. Mr. Rossi stated he will look forward to that.

Mr. Rossi stated that one of the interesting things that we should take a look at for Audit is most private sector firms who do this work, the auditor also audits scheduling and performance under scheduling. I know we don't do that at the state but we should talk about that. Mr. Rivera said yes.

Mr. Rossi thanked everyone for coming.

There were no further discussions and meeting adjourned at 1:07 pm.