CALIFORNIA HIGH-SPEED RAIL AUTHORITY

BOARD MEETING

TRANSCRIPT OF PROCEEDINGS

DEPARTMENT OF HEALTHCARE SERVICES AUDITORIUM
1500 CAPITOL AVENUE
SACRAMENTO, CA 95814

TUESDAY, SEPTEMBER 19, 2017

10:00 A.M.

Reported by:
Peter Petty

APPEARANCES

BOARD MEMBERS

Dan Richard, Chairman

Tom Richards, Vice Chair

Lynn Schenk

Lorraine Paskett

Mike Rossi

Daniel Curtin (Absent)

Nancy Miller

Bonnie Lowenthal

Ernest Camacho

EX OFFICIO BOARD MEMBERS

Assemblymember, Dr. Joaquin Arambula

Senator, Jim Beall (Absent)

STAFF

Tom Fellenz, Chief Counsel & Interim Chief Executive Officer

Krista Jensen, Board Secretary

Jon Tapping, Acting Chief Operating Officer, Director of Risk Management and Project Controls

Mark McLoughlin, Director of Environmental Services

Paula Rivera, Chief Auditor

Russell G. Fong, Chief Financial Officer

APPEARANCES (Cont.)

STAFF

Scott Jarvis, Chief Engineer

PRESENTERS:

Jon Tapping, Acting Chief Operating Officer, Director of Risk Management and Project Controls

Mark McLoughlin, Director of Environmental Services

Paula Rivera, Chief Auditor

Russell G. Fong, Chief Financial Officer

Scott Jarvis, Chief Engineer

Thomas Fellenz, Chief Counsel & Interim Chief Executive Officer

PUBLIC COMMENT

Jeremy Bailey, Self

Ric Ortega, Grassland Water District

Ellen Wehr, Grassland Water District

Paul Guerrero, La Raza Roundtable

Diana LaCome, Association of Professionals and Contractors of California, APAC

INDEX

P R O C E E D I N G S

10:05 a.m.

PROCEEDINGS BEGIN AT 10:05 A.M.

SACRAMENTO, CALIFORNIA, TUESDAY, SEPTEMBER 19, 2017

CHAIRMAN RICHARD: Good morning. This meeting of the California High-Speed Rail Authority Board will come to order. Will the Secretary please call the roll?

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Here.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Here.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Here.

MS. JENSEN: Director Curtin?

BOARD MEMBER CURTIN: (Absent).

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Here.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Here.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: Here.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Here.

MS. JENSEN: Senator Bell?

EX OFFICIO BOARD MEMBER BEALL: (Absent).

MS. JENSEN: Assemblymember Arambula?

EX OFFICIO BOARD MEMBER ARAMBULA: Here.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Here.

Would Vice Chair Tom Richards please lead us in the Pledge of Allegiance?

(The Pledge of Allegiance is made).

CHAIRMAN RICHARD: Thank you.

Before we start, Governor Brown has appointed a new member to our Board. And that is Nancy Miller, a prominent attorney here in Sacramento. And we're very pleased with her appointment and we thank the Governor. This now brings the Board up to a full complement of nine members.

And Ms. Miller, welcome to the High-speed Rail Program. And I'd like to give you the opportunity to just introduce yourself and say anything you'd like to day.

BOARD MEMBER MILLER: Good morning, all. I'm looking forward to serving with you and since we have a huge agenda, I'm just going to leave it at that. Thank you.

CHAIRMAN RICHARD: Well, she clearly doesn't fit on this Board with that level of cogent commentary. (Laughter). But we'll go forward. Thank you very much.

Okay. So as we do, we'll start with Public

Comment. I have public comment cards here. I'll take them in the order in which they were received, so first is Jeremy Bailey, from Sacramento, and followed by Ric, it looks like, Ortega.

MR. BAILEY: (Off mic - indiscernible).

CHAIRMAN RICHARD: Excuse me, sir? If you could come up to use the microphone and introduce yourself, so we have your remarks recorded. Thank you.

MR. BAILEY: Thank you. I appreciate it. I'll be real quick. I'm an East Sacramento resident, but my wife and her family are from France and I just want to congratulate everybody that's working so hard. The vast majority of French people are really excited about this project and hope that you can see it to completion. I will be on another bullet train over the Christmas holidays going to the French Alps to ski and it's an amazing experience.

And for the people, I say the naysayers and doomsdayers that are getting in the way of the project, I really would imagine that most of them have never had the experience to be on high-speed rail. And I really think it's going to revolutionize not only transportation but especially long-distance travel in this state and eventually in the entire country. And we're going to be shining example in the progressiveness of California throughout the history of this country.

So I just appreciate -- I really wanted to say that I really appreciate all the hard work and all the extra hours that I know everybody's probably -- or some of you are putting in to see this to completion.

CHAIRMAN RICHARD: Thank you very much, sir. Thank you.

Is it Mr. Ortega? Did I get your name correct?

MR. ORTEGA: Yes.

CHAIRMAN RICHARD: Thank you.

MR. ORTEGA: Thank you. My name is Ric Ortega. I'm the General Manager of the Grassland Water District and Resource Conservation District. I appreciate the opportunity.

The Grasslands Wetland Complex in Merced County, notably the size of Manhattan, represents the largest remaining block of wetlands in the Western United States. With only 5 percent of our interior wetlands remaining in California, protecting the last remaining is - is really imperative.

Annually, the single largest concentration of over-wintering water fowl are found, on earth are found in the Central Valley on these wetlands, the heart of which is the Grassland Ecological Area. Because millions of birds depend on the ecological area each year, it is designated as a wetland of global importance under the International Ramsar Convention, the Western Hemisphere Shorebird Reserve Network, the U.S. Fish and Wildlife Service and the Audubon Society. The current proposed San Jose to Merced Alignment bisects the Grassland Ecological Area and specifically mud slew, a major and critical wildlife corridor linking the north and south grasslands.

My Board of Directors has formally requested a below-grade design through this critical wildlife corridor. I strongly urge you to accommodate this request.

CHAIRMAN RICHARD: Thank you, Mr. Ortega.

Our next speaker is Ellen Wehr, also of the Grasslands Water District. Then she'll be followed by Paul Guerrero.

Good morning, Ms. Wehr.

MS. WEHR: Good morning, Board members. My name is Ellen Wehr. I'm the General Counsel for the Grassland Water District. The District has been involved with this project from the start. We obtained strong commitments to mitigate the effects of bisecting our Wetland Complex and we're taking every meeting we can with your staff. We're committing our resources and we're doing whatever it takes to see that the commitments will be met.

To be honest, it's been a very slow and cumbersome process. If we're going to properly address and mitigate the impacts of bisecting the largest remaining wetland on the West Coast we need to do it together, and we need to do it now. We have concerns about the decision to use a biological model, rather than working with our district to conduct on-the-ground biological surveys. We're very worried about noise impacts. We're also worried about bird strikes and lighting. We've seen very little movement on the development of a plan to obtain 10,000 acres of conservation easements as promised in the programmatic EIR for the project.

So we came today to introduce ourselves to you. We'll be reaching out further in the weeks to come and we look forward to sitting down with you to have further discussions. Thank you.

CHAIRMAN RICHARD: Thank you, Ms. Wehr.

Paul Guerrero followed by Diana LaCome.

MR. GUERRERO: You should be getting two copies of this right here. One is the San Francisco to San Jose leg and the other is the San Jose to Merced leg. I hope that you have them up there?

CHAIRMAN RICHARD: The Secretary is distributing those.

MR. GUERRERO: Thank you, good morning. Your handouts tell us that on November 23rd, 2015 the Authority executed a contract with HNTB to act as the engineering and environmental consultant for the San Francisco to San Jose and San Jose to Merced Project legs.

On or about August 16th last year, I asked the Board about two environmental justice studies, which you have in front of you for the San Francisco to San Jose and Merced portions of the project. Those two studies, but for a few minor differences, are identical. If you look at the contents, you'll note that their contents are basically identical. And the studies were prepared by Kearns & West, not HNTB. And you should have the first three pages of each study there.

Staff took the floor after I spoke and told the Board I was mistaken. You hadn't commissioned any environmental studies and those two studies were marked "confidential" for internal use only. Today, staff is asking for additional funding for a study staff last year claimed was never done.

The question I asked you in August, about those studies, was if the Authority considers itself the banker? And I have heard this many times, that the Authority is the banker for the San Francisco to San Jose leg. If you're the banker then why does the Authority, as opposed to Caltrain, contract for engineering and environmental studies? Caltrain, the owner of the San Francisco to San Jose leg, is responsible for the engineering and environmental studies, not the banker, Authority. Why open yourself to additional lawsuits and liability when that burden belongs to Caltrans? All the lawsuits that come over the environmental studies, Caltrans should be taking care of, not the High-Speed Rail.

Finally in closing, San Jose citizens have asked and have been told that the EJ studies will come after the route has been picked. La Raza Roundtable has never been contacted, concerning an EJ study and I've heard that the La Raza Lawyers Association were discussing a lawsuit against the Authority.

This is the time to start working with the minority community in the San Jose area. It comprises almost 70 percent of the population down there; 50 percent are Hispanic I believe, and somewhere around 20 percent are Asian. La Raza is the largest organization down there and we've never been contacted by anybody regarding an environmental justice study or any other studies. We have a member, Danny Garza, who sits on your Steering Committee, but that was a labor to get somebody on there that was Hispanic.

So I'm asking you to reach out to the community down here and have your staff start reaching out to the community and working with the community. Not just the upper middle class and white section of the community, the rich people, but come down to the people and work with the people whose homes you're going through with the train. Start discussing it with them and get them involved. Thank you.

CHAIRMAN RICHARD: Thank you, Mr. Guerrero.

Ms. LaCome?

MS. LACOME: Good morning, Chairman Richard, Members of the Board, and Mr. Fellenz. I'm Diana LaCome, President of APAC.

Last month I took a trip to the East Coast and I managed to take a train ride on Amtrak from Boston to Maine. So on the Amtrak train, I was touting how the California High-Speed Rail is the largest, the only high-speed rail in the country, and someone in the train pops up and says, "That's not true." And I said, "Oh. Is there another one?" And they said, "Yes. It's the Northeast Corridor High-Speed Rail." That was the first one from D.C. to Boston. But I know that in a lot of the literature that's posted, it says that we're the first. We may be the largest, but apparently not the first. Okay.

The second area that I wanted to mention is I saw that there's a contract amendments to AT&T and PG&E for utility relocation. They're also going to be receiving additional funding. I was here before the Board; I believe it was in February of this year, asking for your assistance in making it a little bit easier for our small businesses to get contracts with the utilities, specifically on the High-Speed Rail Project. And so that request again I'm repeating today and I know there has been some action on it, but from what I gather not to a great extent. So any help would be appreciated. Thank you.

CHAIRMAN RICHARD: Thank you, Ms. LaCome.

That concludes the (off mic colloquy) I'll come back to that – I will. That concludes the public comment section. Thank you all for taking your time to come and appear before us today, so we'll move on now to the regular agenda.

But first, Ms. Schenk wanted me to point out that in fact the Northeast Corridor is faster than traditional Amtrak, but it's nowhere close to the speeds that high-speed, true high-speed rail around the world has. So they may be -- it, no.

BOARD MEMBER SCHENK: 125.

CHAIRMAN RICHARD: Yeah. They can maybe hit 150 for about 5 seconds, right.

BOARD MEMBER SCHENK: And no dedicated track.

CHAIRMAN RICHARD: Right, yeah. Okay.

First item is the minutes.

BOARD MEMBER SCHENK: Move approval.

BOARD MEMBER LOWENTHAL: Second.

CHAIRMAN RICHARD: Okay. It's been moved by Director Schenk, seconded by Director Lowenthal. Will the Secretary please call the roll?

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Yes.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Yes.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Yes.

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Abstain.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Yes.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: Yes.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Abstain.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Yes.

Okay. Thank you. The minutes are adopted.

Item two is consideration of an augmentation for the contingency fund for a CP1 design-build contract.

Mr. Tapping, good morning.

MR. TAPPING: Good morning, Chairman Richard and Board Members, it's my pleasure to be before you today.

I'm here to request an augmentation of $35 million to the CP1 construction contract contingency.

This is really technically an internal budget transfer between provisional sums that were provided at the initial stage of the project, which we estimate will not be used to the capacity that was originally estimated.

As a way of background, the CP1 contingency was initially $165 million. Through recent Finance and Audit meetings and Board meetings we've explained some of the risks that are associated with that project, primarily the right-of-way acquisition risks, third-party agreement risks and the railroad agreement risks. And some of these risks have been realized. We've taken aggressive steps to mitigate these risks. However, they have depleted the contingency. So this is a short-term request while we undergo a more robust risk informed contingency assessment that is currently underway.

We're looking at not only CP1, but we're looking at CP2-3, CP4 and in fact, the whole program in terms of informing the 2018 Business Plan. So that process is underway and well underway.

We're also looking at opportunities in cost savings and we're having workshops in those regards. So this is a short-term request to keep the critical construction of this project moving in terms of the critical areas of construction that underway now, the 14 areas of construction. And some of the change orders that are appropriate and need to be executed as we move forward.

So as way of background on the provision of sums, there are two provisional sums -- there are more provisional sums, but the two that were looked at exhaustively in terms of estimating and use, were one called the construction contract work. And that was originally set up for right-of-way and dealing with adjacent property owners. And looking at the projections and the burn rates, very little money has been spent out of that contingency. And staff has done an analysis looking forward and does not anticipate spending the full amount. In fact, they're looking at less than 5 million for that one.

The utility, also a contingency, is not the big risk that we're seeing with PG&E, AT&T. It is those utilities that is (sic: are) under the control of the contractor. He is to relocate the facilities. Given the progress of that work to date and looking at the forward projections, there also appears to be conclusively an estimate not to exceed 5 million.

So the request is to basically augment the 35 million due to this technical transfer from the provisional sums and in the long term, as we complete our risk informed and opportunity risk analysis that is ongoing to follow up this request at that time.

CHAIRMAN RICHARD: Okay.

Are there questions for Mr. Tapping?

BOARD MEMBER ROSSI: Yeah. I have a couple.

CHAIRMAN RICHARD: I think Director Schenk was first.

BOARD MEMBER ROSSI: Oh, I'm sorry. Go ahead.

BOARD MEMBER SCHENK: That's all right. No, go ahead, Mike.

BOARD MEMBER ROSSI: Okay.

BOARD MEMBER SCHENK: You're always enlightening.

BOARD MEMBER ROSSI: Okay. I'm going to try. So these monies are being transferred to the contingency fund?

MR. TAPPING: Correct.

BOARD MEMBER ROSSI: And then you're going to spend them?

MR. TAPPING: Yes.

BOARD MEMBER ROSSI: So why are they going to the contingency fund? I mean, we shouldn't be spending money out of the contingency fund.

MR. TAPPING: Well we anticipate, Mike, some change orders ongoing that will need to be executed. And the change, the contingency funds will be the source for the change order.

BOARD MEMBER ROSSI: So that means that the contract wasn't appropriate and we have now found out that the contract wasn't appropriate. And we're putting these extra monies in to cover that short fall of whatever the contract was. And instead of setting it up to the contract we're putting it into the contingency fund because otherwise we'd have to draw from the contingency fund anyhow?

MR. TAPPING: Correct.

BOARD MEMBER ROSSI: Okay. Well, then let's go to the next. Let's go to the page four, Jon, where it talks about budget and fiscal impact. The last line says, so there's going to be more of this on this contract?

MR. TAPPING: That's correct, Mike. We're doing a continuing risk informed analysis on this and other projects, consistent with moving towards the 2018 Business Plan and our updated estimates.

BOARD MEMBER ROSSI: So how was this original budget item presented to this Board? Was it presented as this was a contract for costs to complete?

MR. TAPPING: No. This was presented -- the original contingency was presented to the Board --

BOARD MEMBER ROSSI: It's not a contingency. I'm talking about the contract. The contract that we are now going to transfer funds to in order to meet the overages in it.

MR. TAPPING: Yes.

BOARD MEMBER ROSSI: They may be going to the contingency, but that's not how the contingency was approved. How was the contract approved?

MR. TAPPING: It was approved by -- it was basically best value design-build procurement method, which was a combination of price and qualifications.

BOARD MEMBER ROSSI: So we missed it considerably? That's what this tells me; is that correct?

MR. TAPPING: This tells us that we have some risks and we have some change orders, which we've discussed at length. Yes, correct.

BOARD MEMBER ROSSI: Okay. I don't know if that was enlightening, Lynn, but I'm done.

CHAIRMAN RICHARD: All right, Director Schenk then Director Paskett.

BOARD MEMBER SCHENK: Thank you, Mr. Chairman, if you'll indulge me. My comments are -- then that's questions or comments really about this agenda item, and it goes on to the next two agenda items.

Look, outcomes have many causes and I know we've come to this moment with a lot of different decisions that have occurred, some even before this Administration, so it's not a matter of looking at fault, but as I said on the phone when you all did the briefing, and by the way it was an excellent briefing, I thank the staff for taking this time to do that. That my concern and my discomfort level is that while this is short-term cash flow kinds of decisions that need to be made, in the big picture for the public, for our stakeholders where we don't frankly have a great deal of good will or confidence in us, this sort of shell game of moving money around where we know we're going to eventually -- especially items three and four -- we're eventually going to have to come up with the money that we're moving around. I understand here in item two that we might not have to go back and refund utilities or the construction contract work provisional fund, but in the next two items we will.

It just seems to me that we have a bigger public relations communications issue that we must be more transparent, that we must really have a simpler way of doing this, so that the public can understand it. So it doesn't look like oh we were caught up short because I know we were not caught up short. You know, we made some of these decisions when we didn't have all of the information that we have today. We had good guestimates.

But still, you know we have a credibility issue and rather than just dealing with sort of the cash flow, we have to tell the full story and find a better way of doing it and I know from the conversations that we had at the staff level that you are looking at a better way of doing it, but this just -- I mean, I'll vote for it -- but it leaves me tremendously uncomfortable in the way it appears. And I think that you understand that from the conversations that we've have. So it's not really a question. It's just sort of an overall comment, Mr. Chairman.

CHAIRMAN RICHARD: Thank you, Ms. Schenk.

Ms. Paskett?

BOARD MEMBER PASKETT: So, my, is my mic on?

BOARD MEMBER ROSSI: Yes.

BOARD MEMBER PASKETT: (Indiscernible) button, that's counter intuitive (laughter).

I have similar sentiments as Director Schenk and then in listening to Director Rossi's questions I also have similar questions. And so I'm a little uncomfortable with the information in the packet and I apologize for missing the briefing prepared by staff, but it feels like there should be more information presented to us with this request to augment the contract.

And the other piece that grabbed my attention is the risk analysis and maybe if there was an effort right now to do a risk analysis and put together a plan to mitigate those risks on this contract, it would be more appropriate to re-present this to us after we've also heard in more detail, the plan to mitigate those risks.

So I'm wondering -- and you can tell me if there's a sense of urgency, because of a cash flow issue -- but I'm wondering if it makes sense to get more information and bring it back to us. And then let us vote on this at the next meeting.

MR. TAPPING: There is an urgency with regard to cash flow on this, on this project. We can certainly come back to you with a presentation on the robust risk mitigations that we're doing. For example, on the right-of-way we are working with a contractor to focus on critical parcels to keep the project proceeding in looking at a critical path method and moving forward. So there is a robust list of mitigations, but with the nature of the cash needs on this project at this time, I would recommend that we move forward.

CHAIRMAN RICHARD: You done?

Director Camacho?

BOARD MEMBER CAMACHO: Thank you, Mr. Chairman. I would echo the issues that Director Schenk has raised, but it seems to me that we are perhaps dealing with a symptom rather than the problem.

We establish a budget. We exceed that budget for some reason. I think that in the discussion portion of the recommendation that's being made to us, you talk about right-of-way acquisition and I would hope that we will deal with the problem. We talk about environmental permits, third-party agreements, those types of things. And I would hope that in the next legislative session that we approach the Legislature for relief in this area to accommodate us so that we don't have these problems.

But we continue to kick the can down the road and we continue to kick it every single time and in some cases we kick it three times. So it doesn't make any sense that -- or it makes a lot of sense that people lack the confidence in our ability to be transparent in the things that we're doing and certainly manage a budget and project. Thank you.

CHAIRMAN RICHARD: Thank you, Director. And I certainly want to associate myself with those remarks. Other Directors have questions, Director Miller?

BOARD MEMBER MILLER: (off mic colloquy) How’s that? Okay, since I'm new I'm just going to ask you a couple of questions. It looks to me like this request is due to some design changes and litigation that occurred since 2013, when your original design-build was - contract was issued. Is that correct?

MR. TAPPING: Yes, partially.

BOARD MEMBER MILLER: And those deal with City of Fresno and Union Pacific issues where they benefitted by some of these changes?

MR. TAPPING: Correct.

BOARD MEMBER MILLER: And then you have litigation, which resulted in some changes you also had to make. Is that right?

MR. TAPPING: Correct.

BOARD MEMBER MILLER: When you do your risk management -- I mean in design-build and I understand it you're designing as you go, because you're not really sure completely, you don't have specs for people to bid on. You were basically designing, and as I understand this you didn't have right-of-way, you didn't have environmental. And so but you had construction funds, so you committed to construction with the design-build to kind of go forward and start the process. Is that right?

MR. TAPPING: We did advance the project.

BOARD MEMBER MILLER: So I think given that, I mean this is CP1, and so I just understand the fact that when you start like that you are definitely going to have changes because you don't know going in really what your right-of-way, what your litigation may be, and what your partners -- meaning your city, your local, the railroad -- are going to want or need in order for you to proceed through their jurisdiction.

MR. TAPPING: Those are all risks to the project that we assess when we put out the project.

BOARD MEMBER MILLER: Right.

MR. TAPPING: But there's certainly uncertainty to those risks.

BOARD MEMBER MILLER: So I think that Director Rossi -- do we call ourselves Directors?

BOARD MEMBER ROSSI: I don't, but you can if you want. You can just call me Mike.

BOARD MEMBER MILLER: Okay, what Mike said was it's not really contingency because you're going to spend it right away. But I did ask this question, which is what is the percentage of contingency so far on the project? And I heard it was approximately 20 percent. Is that right?

MR. TAPPING: That's approximately correct.

BOARD MEMBER MILLER: Is that just for CP1 or is that --

MR. TAPPING: It is. And the other CPs are in the similar magnitude.

BOARD MEMBER MILLER: All right, and --

CHAIRMAN RICHARD: Excuse me, she asked a question and your answer, I thought, was different than what I understood. She asked is that just for CP1? I thought the contingency on CP1 was not 20 percent.

MR. TAPPING: It was initially 16 percent. With this augmentation, it would go to 19 percent.

CHAIRMAN RICHARD: Okay, but just so clarity for her question, initially the contingency -- prior to this the contingency is not 20 percent though, right?

MR. TAPPING: It was not. No, it was not.

CHAIRMAN RICHARD: Okay. I'm sorry, Ms. Miller, I just wanted --

BOARD MEMBER ROSSI: CP1 was the only one.

CHAIRMAN RICHARD: Yeah.

MR. TAPPING: CP1 was 16 percent initially.

CHAIRMAN RICHARD: Yeah, that’s right.

BOARD MEMBER ROSSI: It was the only one that wasn't 20.

CHAIRMAN RICHARD: It was the only one that wasn't 20 percent.

MR. TAPPING: Yeah, CP2-3 was I believe 19 and CP4 was in that neighborhood of 18.

CHAIRMAN RICHARD: Right.

MR. TAPPING: As I recall.

CHAIRMAN RICHARD: I apologize.

BOARD MEMBER MILLER: So to me, we're getting closer to the contingencies that you had, that you have on the other two or maybe exceeding it by 1 percent. So just for me coming in new, I mean I understand we have some financial and funding issues with this project obviously, but this does not trouble me in terms of once you start a design-build and then having to deal with your partners and making changes as a result of that, that you would be somewhere in this percentage of contingency.

Now I don't know whether CP1, you're anticipating a lot more contingency requests, that would be my next question, but I don't have trouble with this.

MR. TAPPING: We are undertaking that analysis now along with all the other CPs.

BOARD MEMBER MILLER: Okay. Thank you.

CHAIRMAN RICHARD: Other directors?

So I'll just -- first of all I think the questions from the Board Members were good. And my only impression on this is I think one of our most effective management tools is managing against the contingency, so that we establish contingency.

One of the things that I've always respected about the way that you've approached this is that we haven't just used a flat number. That basically, if I understand it correctly, the contingencies that we establish on each of these legs come from the risk assessment analyses that you do so that it's not just some average number, but it's supposed to be driven against the risks that we see.

And then I've always been appreciative of the fact that at Finance and Audit and ultimately at the Board, we're able to look at the draw against those contingencies as one of our major management tools for staying on top of the progress of the project.

So really my only discomfort with this was just the telescoping collapse in time between the establishment of the contingency against the draw down. Because what that says is we're essentially moving the goal posts with the draw, as opposed to staying ahead of this and saying, "This is where we see the contingency and we can see these things that are eroding the contingency." So I'm not going to even ask you to comment on that, but I think it goes back to what Ms. Schenk said at the beginning about transparency.

It just seems that we should be way ahead of the curve in always updating and understanding what the contingency needs to be on these and that we draw against that. And that we, I mean as a layperson, that I have a sense that, "Okay, we're 80 percent of the way through a project, for example, and we've only drawn 40 percent of the contingency, that sounds good. If the obverse is true that we're 40 percent of the way through, and have drawn 80 percent of the contingency, then that's obviously cause for concern.

BOARD MEMBER ROSSI: Not necessarily, in

fairness, not necessarily. It may depend on where the complexities --

CHAIRMAN RICHARD: Yeah, that's right if you've just done the most complex part --

BOARD MEMBER ROSSI: Right.

CHAIRMAN RICHARD: -- and then the rest of it is just cruising that's right.

But in any case that we have a sense, is probably a better way for me to say it, of where we are in terms of the progress, versus how much of the contingency we have remaining. So that's my only comment and I'm not being critical. It's just to say that I agree with Ms. Schenk that I think we want these contingency determinations to really be moving far ahead of the draw against them.

MR. TAPPING: I would agree, and we're moving towards being more proactive in that regard.

CHAIRMAN RICHARD: Okay.

VICE CHAIR RICHARDS: Mr. Chairman, may I?

CHAIRMAN RICHARD: Yes, Vice Chairman Richards.

VICE CHAIR RICHARDS: I don’t know if that is working or not, no(colloquy to set up audio). No, I have nothing to say (laughter).

CHAIRMAN RICHARD: Here (colloquy to set up audio).

BOARD MEMBER ROSSI: You want to use mine?

CHAIRMAN RICHARD: Use mine.

VICE CHAIR RICHARDS: Thank you. So Jon, I think that to some extent it's the presentation doesn't help here, I think that can be improved upon. I think that we need to call things exactly what they are as opposed to moving from one thing to another, when in fact it does really lead right to what the real issue is. It is an overrun.

I think what the issue when you provide part of the information on these other major change orders, without explanation -- I don't recall and maybe we should -- but these are major items also in the drawdown of the 160 or so and there's 110 of it right there. The dates that it occurred, who authorized the change order, and if it's the Board it could say that.

But that information would be helpful, not only to the Board as we're looking at this with some degree of disparity between the time that the change orders were incurred and now that we're looking at them along with just a clear explanation of what we're doing here, because as Director Schenk and all of my colleagues have mentioned, I think we've all had the same reaction to this. I think some of it could be improved substantially through the presentation. But also I'm concerned a bit about what's missing.

So that we've got a better understanding, as does the public, with regards to this $110 million of additional change orders that we don't really know what they mean. And who authorized them and when they actually occurred.

MR. TAPPING: Okay. We can provide that information.

BOARD MEMBER ROSSI: I'll move it.

CHAIRMAN RICHARD: Okay, moved by Director Rossi.

VICE CHAIR RICHARDS: Second.

CHAIRMAN RICHARD: Seconded by Vice Chair Richards.

Will the Secretary please call the role?

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Yes.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Yes.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Yes.

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Yes.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Yes.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: Yes.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Yes.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Yes.

Thank you Jon.

MR. TAPPING: Thank you.

CHAIRMAN RICHARD: Okay. Our next item is consideration of an amendment to the environmental and engineering contract for the San Francisco, San Jose and San Jose-Merced project sections, for HNTB.

I'm presuming most of this is for Maureen Hayes's salary at HNTB; is that right? (Laughter).

MR. MCLOUGHLIN: Sure. I'll make one disclosure. I have a boot on my foot, so that's what happens when you run in with our auditor. (Laughter). I'll make sure I don't do that again.

VICE CHAIR RICHARDS: Very good Mark.

CHAIRMAN RICHARD: Did you just steal her only joke for the quarter?

MR. MCLOUGHLIN: I want to be ahead of that.

CHAIRMAN RICHARD: Yeah, okay.

MR. MCLOUGHLIN: So good morning, Chairman and Members of the Board. Mark McLoughlin, the Director of Environmental Services for the Authority. I want to present on item number three for the HNTB contract. And I want to go over a little bit of history here, here for context.

So the High-Speed Rail awarded HNTB our E&E contract in November of 2015 with our 30 percent goal. And we also authorized HNTB to initiate the technical work in March for both NorCal sections: San Francisco to San Jose and San Jose to Merced.

Currently without additional funding the HNTB contract will be exhausted by November of this year. And HNTB has estimated the cost to complete for both RODs and all permitting PE for P, which is Project Engineerings for Procurement for San Francisco to San Jose, and San Jose, Merced. And also stakeholder outreach would require an amendment of a total of 39.6 million.

HNTB, also in this context, will prepare the PEP for the Central Valley Wye, at about 4.8 million at a future date.

As again an amendment -- an advancement of amendment of the 10 million will advance the work on both RODs for these two sections and maintain momentum. It would also raise the current value to not to exceed of 46 million and with the expenditure priorities to be determined with the Executive Committee and/or consistent with Board direction of the 2016 Business Plan.

Also, the $10 million we're reducing the existing Kleinfelder Geotechnical Contract by 10 million to fund this $10 million amendment. And then future amendments to complete permitting and PE for P for these two sections will be forthcoming as the program goes through its baseline exercise.

Some major changes that have been included for both sections on the alignment have changed and I'll just go through a few of them here. We currently have a San Luis Reservoir Avoidance Alignment developed to avoid significant water habitat and refuges and parks, including the San Luis Reservoir owned by the Bureau of Reclamation, the Morgan Hill Bypass, Caltrain Peninsula Corridor Electrification Project in the San Francisco to San Jose section for rail alignment. There's a short viaduct north of Diridon Station to I-880 that was developed in response to comments during scoping of the section, also the Newhall neighborhood of San Jose.

Also, another aerial change this time at HSR through the Diridon Station, introduce the aerial alignment. It's part of that project. Modification of at-grade alignments through San Jose, Diridon analysis and then a low viaduct downtown Gilroy Station. So the team led by Ben Tripousis is working pretty diligently with stakeholders in this area that wanted these changes.

We have some other pending issues on the sections or these two sections, ongoing discussions with Caltrain, SPRR via corridor owners. And then we also have wildlife crossing issues at Soap Lake, in the San Joaquin Valley and the Coyote Valley areas. And we've also been working closely with the environmental community, government-to-government concertation with Native Americans in this section and then including water districts and the resource agencies.

So the investment in this section, HNTB contract, aligns with the 2016 Business Plan direction in getting to Valley to Valley as the state's priority.

So of note, we've made also lots of progress. I'd like to note that also, that the team is working on. We're very close to concurrence of what we call Checkpoint B with the Army Corps and the USEPA in our checkpoint process and that is the approval of a range of alternatives that will be put into the EIR/EISes. So we're getting close to the concurrence to move forward with the document, so that's very important.

Also this for those two sections, the deliverables by June that are targeted are for San Francisco to San Jose in this amendment would be a draft PE/PD, which is our engineering record set that supports the environmental document and a draft admin EIR/EIS to get to that point by June.

San Jose, Merced again is PEPD, which is the draft of the record set, a full record set, and then the draft administration for the admin for EIR/EIS for FRA review.

So those are the deliverables that we're targeting to get to June that we would see and then move forward as the program would be in the baseline, based upon what direction we would be providing.

So with that we would ask for approval to maintain momentum in this, these two sections to attain the RODs for the Valley to Valley section.

CHAIRMAN RICHARD: I'm going to exercise Chair's prerogative and ask a question first ahead of my colleagues, which I don't normally do, but I just want to pick up on what Nancy Miller asked before.

Setting aside this particular item, Mark, can you help me think about how we're doing all this? Because we start off on things to do an environmental analysis. As we go through that information becomes available, whether it's community impacts and people want us to look at aerial as opposed to at-grade, or things that come up. We heard from the folks with the Grasslands District this morning. They want us to look at below grade.

I mean, so as we start doing those things and then we end up kind of churning it seems to me, maybe that's the wrong word, but a lot of different permutations on this. Then we go back and we say, "Well, now these are the things that have changed, so we're looking at these." But at some point they'll come to the Board in the form of a draft EOR Record for Decision, PIR. And we may say, "Well wait a minute," like we said in Bakersfield. We actually think there's a different alternative here, because maybe we're looking at cost pressures or we're looking at things like that.

How do we avoid getting into a kind of a constant do loop on this environmental analysis? I mean, it's kind of shocking to me the level of numbers that we deal with in terms of the environmental review costs that are just very, very, very large. And which isn't to say that we shouldn't be examining all the impacts on communities and biota and all that. But I'm just sitting here wondering do we have any ability to control this, or are we just going to be consistently buffeted as we go through this process by people saying, "Well wait. It can't go here. It has to go there." And so now we have to go back and look at all this stuff.

How do you think about that and how should we think about that?

MR. MCLOUGHLIN: Well, the way that I think about it is that we are trying to be proactive in where the alignments are and with working with the teams that we have, but we're generally in the reactive, reaction mode reacting to changes and requests to the project to accommodate any changes whether those are political, those are engineering resource agencies.

And I go back to also we have a program, documented in our program alignment, so we have a pretty strong framework of where we want to go and how we want to get there. And we start getting down to the either smaller levels of the analysis. So the program document is not new.

And so we get down to these other areas and then we have different changes in the political landscape, where people want and that's what we react to. Whether it's an engineering feasibility that wasn't foreseen or all kinds of different things, 4(f) issues as it relates to a park or recreation topic and so we're reacting to what the project program needs or providing environmental constraints to those and alternatives.

We do provide if there's analysis and change, is there any environmental constraints to those topics and those alternatives that would be costly, more or less costly. Picking an alternative could be more costly environmentally than it would be engineering.

CHAIRMAN RICHARD: So not for today, but I would just like us to -- I'll direct this to Mr. Fellenz -- but

I'd like us to take a breather at some point and step back and look at what we've learned so far from this process.

I mean, I'm one who started off thinking that design-build is the way to go. But if in fact what's happening is that it just becomes kind of a floating crap game where we never really know where we are - that, I think we're at the point now far enough along in CP1 and the Valley construction, or our first construction segment in the Valley and what we've learned, I just think it would be good to step back. And say, "Okay. Can we think strategically about how this is going and whether there are ways to make this more efficient?"

Because it strikes me that this becomes a huge cost driver. Not just for individual contracts like this that are doing the analysis, but cost driver because we end up chasing our tail on the environmental. And we have to go back on the engineering and we have to go back on the right-of-way and everything because of all this. And so I estimate this is a good time for us to take a strategic reassessment of how we can do this in the context of the laws and the things that we have to do, how we can do it more efficiently.

MR. FELLENZ: Yeah, I'm happy to do that, Mr. Chairman, is take a look at this and come with a report back to the Board.

BOARD MEMBER ROSSI: Mr. Chair?

CHAIRMAN RICHARD: Yeah, Mr. Rossi, and then we'll go down the line for questions.

BOARD MEMBER ROSSI: Okay. Along the lines, Mark, of what Lynn said and what Dan just said, one of the problems I have with this presentation is we’ve made a number it appears to changes in looking at alternatives.

And, you know, I'm getting old. Some people would say I've long past gotten, I'm old. And I can't remember who approves all these changes or who in effect approves spending additional monies to do additional studies before we actually have a decision at a level that says, "Look. We only have so much money. We're only going to do so many things. We can't do six different alternative studies."

So Mr. Fellenz, as you look at that, would you also look at that process, so I can understand that? Because when I read a request for more money that elucidates a series of alternatives, I'm not sure who's controlling that exercise and it is a dollar exercise and it is a time exercise -- time to complete, which means if we're increasing costs, as we sit.

MR. FELLENZ: Yeah, I'm happy --

BOARD MEMBER ROSSI: If you would add that too then I'd appreciate it.

MR. FELLENZ: Absolutely. Happy do to it.

MR. MCLOUGHLIN: As you point out that when schedules change and move out there's a cost implication to it.

BOARD MEMBER ROSSI: Right. Thank you, Mark.

CHAIRMAN RICHARD: Yeah, Ms. Miller?

BOARD MEMBER MILLER: Yes. Just the original contract was 36 million; is that right?

MR. MCLOUGHLIN: Yes.

BOARD MEMBER MILLER: And you're asking for an additional 10 today?

MR. MCLOUGHLIN: To get us through June, correct.

BOARD MEMBER MILLER: To get you through June, but eventually you're going to need, you think an additional 39.6?

MR. MCLOUGHLIN: Correct.

BOARD MEMBER MILLER: Is that on top of the 10?

MR. FELLENZ: No, 29.6.

MR. MCLOUGHLIN: 29.6.

BOARD MEMBER MILLER: So it's 29?

CHAIRMAN RICHARD: Correct.

BOARD MEMBER MILER: Right, okay.

CHAIRMAN RICHARD: Correct, but it's 39 including the 10.

BOARD MEMBER MILLER: Including the 10 and that would get you to --

MR. MCLOUGHLIN: ROD.

BOARD MEMBER MILLER: The ROD, right?

MR. MCLOUGHLIN: MM HMM (affirming).

BOARD MEMBER MILLER: Okay. So with these alternatives that you, the additional alternatives, did you drop any alternatives that you had before?

MR. MCLOUGHLIN: We modified the existing ones that we had, not sure we dropped any major ones. The interesting thing about San Jose-Merced is that it's more than a one alignment with variations in between of one alignment, especially as you go through Pacheco Pass. There's only so many ways to go through there. We have variations of one alignment, not separate and distinct alignments.

BOARD MEMBER MILLER: So I'm sorry, because I'm new, I just want to ask this question. Lots of times when you go through that, you start your engineering, because there was a lot of engineering work associated with these different alternatives. Are you on top of the fact that if something looks infeasible, you stop that engineering work --

MR. MCLOUGHLIN: Yes.

BOARD MEMBER MILLER: -- right away and then you move on to the more feasible?

MR. MCLOUGHLIN: Yes.

BOARD MEMBER MILLER: As a way of --

MR. MCLOUGHLIN: Sometimes that's an increase in cost, but -- or it could be a reduction in cost.

BOARD MEMBER MILLER: It should be a reduction if you can manage it, right? I mean obviously design is -- but these are project-level environmental documents, right? They're not program level, right?

MR. MCLOUGHLIN: That's correct.

BOARD MEMBER MILLER: Okay.

MR. MCLOUGHLIN: And we're at 15 percent design to support the document in light of the design-build approach.

BOARD MEMBER MILLER: At 15?

MR. MCLOUGHLIN: Yes.

BOARD MEMBER MILLER: All right. Thanks. That's all I have. Sorry, I have one other thing.

MR. MCLOUGHLIN: Sure.

BOARD MEMBER MILLER: The 10 million that's coming from your geotechnical, do you expect to have to supplement that at some point in the future or is that a true saving?

MR. MCLOUGHLIN: For the geotech?

BOARD MEMBER MILLER: Yeah.

MR. MCLOUGHLIN: I would imagine -- I'm not managing that contract, but that had a certain scope to complete. And they may ask for additional scope, based upon supporting the procurement, the PE for P effort for that section.

BOARD MEMBER MILLER: So we're just shifting that at this point?

MR. MCLOUGHLIN: That's correct.

BOARD MEMBER MILLER: Thank you.

MR. MCLOUGHLIN: Depending on the priorities have let the Board sets in baseline and the Business Plan.

BOARD MEMBER MILLER: But once again the goal is to get these documents completed?

MR. MCLOUGHLIN: That's right. And I think I wanted to make sure to note in the original estimates or the original approach of HNTB and the procurement in 1516, there were lots of assumptions that were made that we could use a lot of the existing PTG information, the existing engineering. San Jose to Merced went dark for a couple of years. We didn't work on that very much on that section, because the focus was in different areas.

And then to restart that up, it ended our procurement. And then a lot of assumptions on streamlining were looked at as to why the original cost was at a certain amount. And that's why in those necessarily some things have worked, some things have not, in those assumptions.

CHAIRMAN RICHARD: Ms. Miller. Are you done?

BOARD MEMBER MILLER: I'm done, thanks.

CHAIRMAN RICHARD: Okay. I just didn't want to cut you off. I didn't know. That's all right. (Laughter).

Ms. Paskett, did I miss you? Did you have a question?

BOARD MEMBER PASKETT: No. I'm fine. In fact, I like coming behind Ms. Miller. She asked all my questions, so I get a little break today.

CHAIRMAN RICHARD: You could ask them again. We could have stereo.

BOARD MEMBER PASKETT: Thank you.

CHAIRMAN RICHARD: Okay. Coming down this way, Ms. Schenk?

BOARD MEMBER SCHENK: No. I think I made my points earlier.

CHAIRMAN RICHARD: Okay.

BOARD MEMBER PASKETT: And I may move the item, Mr. Chair.

CHAIRMAN RICHARD: Hold on a second. Your colleague, Mr. Camacho, looks like he has a question first.

BOARD MEMBER PASKETT: Oh, sorry.

BOARD MEMBER CAMACHO: Thank you. It seems though that we continue to manage the cash flow, not the project and we are again robbing Peter to pay Paul. What is the impact that it has on Kleinfelder?

MR. MCLOUGHLIN: What's the last question, the impact on?

CHAIRMAN RICHARD: Kleinfelder.

MR. MCLOUGHLIN: Oh. They will reduce their -- I'm assuming they would reduce their scope. If they had X work plan, they would reduce that work plan based upon lesser priorities of – what they have a work plan of priority of locations, I am sure. So it would reduce that work plan.

BOARD MEMBER CAMACHO: By reducing their contract are you confident that they will have enough money to accomplish any work that's not completed? Or are you going to come back to us again and ask to amend that too?

MR. MCLOUGHLIN: That's I think the plan if required that -- Tom, I don't know if you want to answer that, but the goal is --

BOARD MEMBER CAMACHO: I'm sorry?

MR. MCLOUGHLIN: -- to complete. If we could come back as part of the, whatever the baselining is in the Business Plan, if it's appropriate to finish that and come back for that same amount.

BOARD MEMBER CAMACHO: So once again, we'll come back to it again. We're kicking this can down the road? I support the idea that the HNTB needs to do the work. I disagree on the solution.

CHAIRMAN RICHARD: Did I understand Ms. Miller's question to you, to indicate -- I thought your answer to her was that you expected that there would probably be a scope change requested by Kleinfelder for the geotech work?

MR. MCLOUGHLIN: If we're reducing -- generally if we're reducing the scope in their work plan they would come back -- a possibility to come back and replace that work plan depending who's managing that if the existing -- if the reduced work plan would support the PE for P effort or not.

CHAIRMAN RICHARD: So could I just ask a quick question --

BOARD MEMBER CAMACHO: Sure.

CHAIRMAN RICHARD: -- in furtherance of what the Director meant? Then why aren't we doing the same thing that we did in the prior contract? Why aren't we just increasing the contingency in the program and taking the money against it, as opposed to taking it from the Kleinfelder contract that we suspect is going to come back and re-up? Maybe you didn't make that decision, but --

MR. MCLOUGHLIN: I did not, Tom?

CHAIRMAN RICHARD: So let me ask that question of somebody.

MR. FELLENZ: If I could try to explain? There is no particular contingency. There is no contingency assigned to these environmental clearance contracts.

CHAIRMAN RICHARD: Because they're not part of a CP1 construction contract?

MR. FELLENZ: Right.

CHAIRMAN RICHARD: Okay. I've got it.

MR. FELLENZ: Correct, correct. They're an environmental clearance and their budget is really the amount of the contract value that was approved by the Board. To the extent that there was additional scope added or changes were made that increased the cost of doing the work, then we would have to come back to the Board to have an augmentation of that contract, because there is no contingency that's approved by the Board to draw from.

CHAIRMAN RICHARD: Okay. But with all due respect, until Director Miller asked the question, I guess I just assumed that the Kleinfelder contract had been budgeted for more than was needed and so we were able to harvest some savings from that to offset the cost growth here, but in fact, it sounds like the trajectory of that contract is that that's only a temporary situation. And as a consequence this goes back -- yeah.

And look, I'm not trying to grind on the staff here. I don't think anybody is, but it goes back to the initial comments of Ms. Schenk, which is we've got to just be transparent about it. If we know that their trajectory is that overall, the area under the curve is going to expand, we just need to say that.

MR. FELLENZ: Yes. I agree. And the reason for doing this is it's a timing issue, so that the Kleinfelder work and the cost of that work is out in time.

CHAIRMAN RICHARD: But that's a cash flow question.

MR. FELLENZ: Correct.

CHAIRMAN RICHARD: That's not a budget question.

MR. FELLENZ: Correct, it's a cash flow.

CHAIRMAN RICHARD: So we should just be clear about those two things.

MR FELLENZ: Yes.

BOARD MEMBER PASKETT: Mr. Chair, if I can jump in a little bit, because it does feel like we're grinding on staff a little bit. It does say that in the resolution that it's likely to increase.

CHAIRMAN RICHARD: Okay. Yes.

BOARD MEMBER PASKETT: That the costs are likely to increase and I had questions around that, because I was looking at the contract amount in the addition, listened to the presentation. But after Ms. Miller's questions, I think that Mark answered to my satisfaction, the amounts, but it's also in the document and our resolution saying that we should expect an increase.

And it's a little unsettling as a Board to see an iterative process where we don't have complete visibility into the expenses. But the nature of these projects are such that I would rather have the staff come back to us incrementally, when there are changes and present them, maybe with a little more data (laughter) so we have context. But check in with us along the way --

CHAIRMAN RICHARD: Yeah.

BOARD MEMBER PASKETT: -- because there are so many unexpected changes when you're going through CEQA and EPA.

So I don't want the staff to feel like we are overly critical and expect you to crystal ball everything and I actually appreciate the continuous check-in, even though it feels like the target's moving a little bit.

MR. MCLOUGHLIN: The questions are fair, of course.

BOARD MEMBER ROSSI: Look, I would (indiscernible) am I on now?

CHAIRMAN RICHARD: Yeah.

BOARD MEMBER ROSSI: I think we have to be careful here in that I think the staff's doing exactly what they should do. They're managing their cash. They're not pushing anything out, but they have time to deal with the other issue and that's what they're doing. They're taking time to figure out how do deal with it and it may not be a problem in the future. And there may be other things they can do with the existing contract, but if we just keep pumping up numbers, then there is no incentive to get better. So by maintaining a firm grasp of our cash flow, they're working very hard to try and match the timing and the needs and stay within budget. I think they're to be applauded.

CHAIRMAN RICHARD: Okay. And --

VICE CHAIR RICHARDS: I would agree with that.

CHAIRMAN RICHARD: And thank you, Lorraine, because I --

BOARD MEMBER CAMACHO: Mr. Chairman, isn't the --

CHAIRMAN RICHARD: -- didn’t read the resolution well enough.

Mr. Camacho, I cut you off before and I apologize, so you have the floor.

BOARD MEMBER CAMACHO: Go ahead, sorry. I'm sorry, isn't there an overall contingency in the program as opposed to just i.e. a project?

CHAIRMAN RICHARD: Yes.

BOARD MEMBER CAMACHO: So your comment about using that contingency to offset this, can't we do that?

MR. FELLENZ: There are contingencies that the Board has approved for the design-build contracts. There are no contingencies for environmental clearance that came to the Board for approval. Instead, there are just contract amounts that come to the Board for approval. So to the extent that there needs to be additional money the staff doesn't have access to additional funds, which typically would be contingency.

So you could add contingency to the environmental program from which -- after port Board approval -- from which the staff draws from, under certain conditions, so that's -- we could arrange it differently, but presently that's how it is set up.

CHAIRMAN RICHARD: Yeah, I think what you were referring to is we generally think in terms of we have $11 billion or whatever of "contingency." But that's a theoretical number as opposed to a specific number of dollar contingency out of allocated funds that exist that we apply to specific segments. I think I've got that right.

BOARD MEMBER ROSSI: That's right, but we want to be careful (indiscernible) it's probably not worth listening to anyhow. But in fact it is that you want to be careful how you use that unallocated contingency, so that you don't end up somewhere down the road with no contingency. So you need to manage every day your cash flow vis-a-vis your budget, in the timing in which you need that cash flow, which means that the staff is actively trying to manage their cash flow situation vis-a-vis the budget. And personally, I would not want to see that change. We've been there before.

CHAIRMAN RICHARD: Okay. Other questions or are we ready to for --

BOARD MEMBER PASKETT: I'll move the item.

CHAIRMAN RICHARD: I'm sorry?

BOARD MEMBER ROSSI: She moved the item.

CHAIRMAN RICHARD: All right, moved by Director Paskett. Do I hear a second?

BOARD MEMBER LOWENTHAL: Second.

CHAIRMAN RICHARD: Seconded by Director Lowenthal.

Secretary, please call the roll.

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Yes.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Yes.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Yes.

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Yes.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Yes.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: No.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Yes.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Yes.

Okay, next item, same topic for the Central Valley Wye for contractor Parsons Transportation Group.

MR. MCLOUGHLIN: Yes.

CHAIRMAN RICHARD: Mr. McLoughlin?

MR. MCLOUGHLIN: Yes. This is the same approach and I'll go through a little bit, and some assumptions, and then also deliverables and that approach.

So for context and history PTG began this work on the Central Valley Wye, under the San Jose-Merced Project section for originally for 55 million on December of 2008. And its contract was suspended in 2012, having spent 44.5 million. PTG received a task order for authorization for remaining balance of the current contract, now valued at 77.24 million in July of this year.

Without additional funding PTG again will exhaust its capacity in October of this year. So that's a little bit of context on the contract portion that the original

Wye portion was housed in the San Jose-Merced contract. And when the Wye was broken out, it was separated. But the contract value amount still remains the same, the total.

The original contract again, for 55 million for preliminary engineering and then project specific environmental work was again from San Jose to Merced.

In April of 2013 we studied additional alternatives in the Wye for environmental clearance to be included in the Checkpoint B of our integration 404/408 MOU at the Corps and the EPA.

In June of 2014, there was additional public outreach to address comments and concerns raised by the community and agencies, resulting in additional engineering and environmental work to address those comments. That was in June of '14.

June of 2016, additional alternative SR 152, Road 11, was added to -- revised, so to add that as the PPA the Board acted on that previously on the Preliminary Preferred Alternative as 152 to Road 11.

So major changes since that period of time, we've refined our wetland delineation and land cover refinements. The Corps required updated information from the original Merced Fresno EIR/EIS document. There's been changes to CEQA thresholds not consistent with our environmental methods, that we address that. Revisions to impact avoidance minimization measures that we learned from CP1, so we took lessons learned of our EIR/EIS mitigation measures and refined them forward on those lessons learned.

There's also been refinements to PG&E electrical interconnection and networks upgrades, analysis that required that. We've also had continued work in the environmental justice topic with the area of Fairmead, and looked at other mitigation measures for them.

We also increased the overall schedule based on the delays and the reviews and the change in the overall approach.

Some other considerations that we have is the changes to the Wye resulted in a need to modify the RC scope and contract since these changes are an expansion of their current scope. And this expansion will be for a time and money.

So this advanced amount, this plus minus $3 million will get us to the ultimate RODs for this section, including the Surface Transportation Board ROD. So we'll get finality with this proposed approach.

We also have, during the period of time in this last year we've had negotiations with FRA on durations of review times. And where we're trying to streamline or do concurrent reviews. We've also come to an agreement with then currently on review times that are consistent and we can apply to all the sections now versus a unending timeframe, which depend on the availability of our staff and the FRA to review these documents.

So with that I'd like to finish my presentation, and if there's any questions with anybody that they may have on the Wye?

CHAIRMAN RICHARD: Okay. Director Paskett?

BOARD MEMBER PASKETT: Mark, can you hear me? In your comments you had mentioned a number of items including environmental justice work. And on page four, I think you have a paragraph, can you just tell me a little bit more about that work?

MR. MCLOUGHLIN: Sure. Diana Gomez has led the conversations with the town of Fairmead and in what their requirements may be for our alignments and what their needs are. And I think I've been involved in the Wye for five years, including meeting with Fairmead and Diana has been more focused on the ground with that group, including our engineering team and environmental team. And so we're trying to work out different ways the project can be accommodated in their area, pretty detailed.

BOARD MEMBER PASKETT: What is -- give me an example, what does that mean?

MR. MCLOUGHLIN: Well, I think they have certain needs that they have, certain improvements to their community they'd like to see. Visual and aesthetics, of course, is a big thing depending on the alternative. They have civic needs that they would like to address, whether it's their community center. They have infrastructure needs, things like that, that are important to them that they currently don't have. So Diana's been doing a good job with them and meet with them frequently. I'm not sure if any other Board Members have met with them at all.

CHAIRMAN RICHARD: I'm meeting with them tomorrow. I'm going to Fairmead tomorrow.

MR. MCLOUGHLIN: Yeah. When I have met with them, they're very professional people. They're very focused on their community at heart and that's the very important thing to recognize.

CHAIRMAN RICHARD: Okay, other questions coming down this way.

Ms. Schenk?

BOARD MEMBER SCHENK: Oh, just the same issue, you know, that I've mentioned before. And a little bit -- can you just expand a little bit on the T.Y. Lin contract?

MR. MCLOUGHLIN: Sure. As you pointed out the dollars are coming from the existing T.Y Lin contract, which is Bakersfield to Palmdale, which is including the Fresno Bakersfield LGA, Locally Generated Alternative.

BOARD MEMBER SCHENK: Are they reducing their scope, are we going get --

MR. MCLOUGHLIN: That one, their scope is not reduced as they're moving forward to get to the document. They have somewhat over -- or contingency dollars in there that we found that can be applied there and they will not reduce their scope.

BOARD MEMBER SCHENK: So we can look forward to having you or someone coming before us and asking for an amendment in the future for the T.Y. Lin contract, is it?

MR. MCLOUGHLIN: No. Not currently at this time.

BOARD MEMBER SCHENK: Yeah. Okay.

MR. MCLOUGHLIN: We have enough budget in that contract.

BOARD MEMBER SCHENK: Okay.

CHAIRMAN RICHARD: Other questions, the pleasure of the Board?

BOARD MEMBER PASKETT: Moved.

CHAIRMAN RICHARD: Moved by Director Paskett.

BOARD MEMBER ROSSI: Seconded.

CHAIRMAN RICHARD: Seconded by Director Rossi.

Secretary, please call the roll.

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Yes.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Yes.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Yes.

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Yes.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Yes.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: No.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Yes.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Yes.

MR. MCLOUGHLIN: Thank you

CHAIRMAN RICHARD: Thank you, Mark.

Okay. Next we'll have a presentation on the 2017-2018 Business Plan by Paula Rivera. Oh, you don't look like Paula Rivera. (Laughter.)

Well, if you need to introduce it, Russ, that's fine.

MR. FONG: Oh, I'm sorry. I think I --

MR. FELLENZ: There's another item first, Russ.

MR. FONG: Yeah. I just remembered that.

MR. FELLENZ: Yeah, I think Paula goes first.

MR. FONG: So I'll (indiscernible) up here. Okay.

BOARD MEMBER SCHENK: There's another item?

MR. FONG: Yeah, well Paula --

CHAIRMAN RICHARD: Russ jumped the gun.

MS. RIVERA: Sorry.

CHAIRMAN RICHARD: Ms. River is going to demonstrate leaning in. Okay.

MS. RIVERA: Good morning, sorry. I'm Paula Rivera. I'm the auditor for the High-Speed Rail Authority. And I'm here today to bring the internal self-assessment of our Quality Assurance Plan and the Audit Plan for this fiscal year to you.

By way of background, we have a Quality Assurance Program that we've developed for our Audit Office. It's documented in your audit manual. And each year, we do a self-assessment of how we meet those standards we've set for ourselves. And every three years, we have an external review of that, so this year in April we had the external review. So this internal self-assessment that we're bringing you is just sort of that gap period.

I am proud to say that we've made a lot of improvements since the self-assessment we did last year. And audit standards require that I bring this to the Board for your acknowledgement of how we're meeting our Quality Assurance Program.

I also bring to you the Audit Plan for the '17-

'18 year. If you have any questions about the Plan, I can let you know how it was developed, some topics, that sort of information. But I ask that you acknowledge the self-assessment and approve our Audit Plan.

CHAIRMAN RICHARD: Is there anything in the Audit Plan that you particularly want to highlight or does it stand on its own?

MS. RIVERA: It is as much fun as an auditor can imagine -- (Laughter). -- (indiscernible) current standard.

CHAIRMAN RICHARD: Director Schenk?

BOARD MEMBER SCHENK: Yeah, thanks.

Paula, so just that I know you answered this on the call, but the 1 through 17 is your priority list of how these audits will be covered and they will all be covered?

MS. RIVERA: Yes.

BOARD MEMBER SCHENK: Yeah. And you have the resources that you need for this?

MS. RIVERA: We're allocated the budged for those resources. However we have two vacancies that we're actively working to fill. This plan is based on being fully staffed and we had interviews last Friday. A couple of good candidates and hopefully we will be fully staffed soon.

BOARD MEMBER SCHENK: Okay. And I know you report this to Finance and Audit, but would you let us know, the full Board, when you have fully staffed up?

MS. RIVERA: Yes.

BOARD MEMBER SCHENK: That you're still on track to cover all of these.

MS. RIVERA: Yes.

BOARD MEMBER SCHENK: Because I have particular interest in ones that are sort of 6, 7, 8, so they're further down the list.

MS. RIVERA: Okay.

BOARD MEMBER SCHENK: Thank you.

MS. RIVERA: Okay. I will do, thank you.

CHAIRMAN RICHARD: Other questions for Ms. Rivera?

Mr. Rossi?

BOARD MEMBER ROSSI: Hi, Paula. So as you've been here for this meeting and you saw the three agenda items, clearly there's something about budgeting that we need to focus on. Are you going to be auditing the system by which these things get approved and keep -- in effect addressing Ernie's question is, you know, something's happening here that sort of could be because we didn't know enough at the time, but there's sort of a systemic issue there. Will you be examining those, auditing those issues in the future?

MS. RIVERA: We --

BOARD MEMBER ROSSI: I.e. did they have the appropriate approvals? Was the stuff done in a manner that is reflective of the appropriate analysis, all of those things?

MS. RIVERA: That, we have an audit of contract management on the plan and we will cover those things. We also have an audit of contract execution. And one of the things we will look at is the initial estimate.

BOARD MEMBER ROSSI: Okay. Thank you.

CHAIRMAN RICHARD: Okay, other questions?

Okay.

BOARD MEMBER LOWENTHAL: Mr. Chairman?

CHAIRMAN RICHARD: I'm sorry, Director Lowenthal had a question.

BOARD MEMBER LOWENTHAL: Yeah, just looking at the plan, as it goes forward is it possible for us to get reports as you finish each item, as opposed to the final report?

MS. RIVERA: Yes. We issue report -- as we finish each audit, we issue the report to the Finance and Audit Committee and it gets presented in that month's meeting. And I can share copies of the final reports with the full Board.

BOARD MEMBER LOWENTHAL: Just saying, yeah I'm glad to hear that, because it seems to me that some of these items are very relevant to the conversations that we've had on the previous items.

CHAIRMAN RICHARD: Okay. Great. Okay. I believe that item was moved by Director Schenk. Is there a second?

BOARD MEMBER ROSSI: Second.

BOARD MEMBER LOWENTHAL: Second.

CHAIRMAN RICHARD: Second by Director Rossi for the approval of the Audit Plan for the coming year.

Will the Secretary please call the roll?

MS. JENSEN: Director Schenk?

BOARD MEMBER SCHENK: Yes.

MS. JENSEN: Vice Chair Richards?

VICE CHAIR RICHARDS: Yes.

MS. JENSEN: Director Rossi?

BOARD MEMBER ROSSI: Yes.

MS. JENSEN: Director Paskett?

BOARD MEMBER PASKETT: Yes.

MS. JENSEN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: Yes.

MS. JENSEN: Director Camacho?

BOARD MEMBER CAMACHO: Yes.

MS. JENSEN: Director Miller?

BOARD MEMBER MILLER: Yes.

MS. JENSEN: Chair Richard?

CHAIRMAN RICHARD: Yes.

So Paula, you know when Stephen Curry puts up a shot and he knows it's going to go and he walks away I saw you just walked away from the podium before the vote was even done. That's a lot of confidence there. (Laughter).

(Off mic colloquy.)

CHAIRMAN RICHARD: Okay. Very good.

Okay. The next item is a presentation of Finance and Audit Committee reports. Mr. Fong?

MR. FONG: Good morning, Mr. Chair, Board Members, Interim CEO Mr. Fellenz, Russ Fong, your Chief Financial Officer and I apologize for the mix-up earlier today.

We're going to go through the first set of slides relatively quickly, because all the data does appear on our Finance and Audit Committee Board reports that come out monthly. So with that, let me go ahead and get started.

We'll talk about the Financial Office and our Budgets, Accounting, Reporting and Commercial and especially our Contract Management Office.

This slide basically answers the question, "How are we doing paying our invoices?" I just wanted to point out that over the fiscal year '10-'11 to current we've decreased our late penalty payments by 99.9 percent, which is a big accomplishment.

This slide just talks about our cash, as we have talked about earlier today. We do monitor our cash. Prop 1A cash as of today is $1.2 billion.

Moving over to our Cap and Trade our current cash balance is $541 million.

Moving over to our admin budget, our admin budget just for those that aren't familiar, this is our budget that pays our salary, wages, IT, travel, training facilities and etcetera. This displays a three-year period of time in how our budget has changed, past two years, and then obviously our new budget for fiscal year '17 and '18.

During the reorg we pulled IT out of Admin. We eliminated the Strategic Office. And our Regional Director's Office was merged into Program Delivery.

This slide is the same. This is where we're spending our money by line item. We've had a 3 percent increase from the prior year and we currently have 226 positions established.

This highlights our admin budget, our last slide, and basically shows our position growth over '13-'14 to the current year. We started at 174 positions and like I said, we have 226 as of today.

Moving over to our Capital Outlay Budget, we have a decrease of 26 percent from the previous year. This budget is in line with the 2016 Business Plan and to prioritize our executed contracts to complete the Central Valley segment, both development and construction, our Valley-to-Valley, and also our local assistance known as our bookends.

Expenditures were under budget for two main reasons. Project development was 55 percent under budget, due to the extension of the raw dates. And our construction was 42 percent under budget due to delays in right-of-way acquisition and our delays in the weather.

This slide highlights our actual expenditures for fiscal year 2006. As you can see we spent -- this project has spent $3.7 billion. If you add in our forecast, we will be projected to spend $5.4 billion.

The slide highlights our expenditures and forecast funding by funding source. Our Prop 1A is highlighted in blue, our ARRA in purple, and our Cap and Trade in green. Again, all this information is in our Board reports.

I just want to highlight our grants team. They are responsible, the financial tracking and report of our ARRA grant. The ARRA grant is $2.553 billion and we also have our upcoming FY '10 grant of $929 million. I just wanted to point out as of this week we've spend 99.9 percent of our ARRA funds. We literally have $14,000 remaining.

So how many contracts do we have? As of July '14, we had 137 for about 2.3 billion. Today, we have over 400 at $5.6 billion.

Looking at our Projects Initiatives Report, we are currently actively monitoring and reporting monthly to the F and A Committee 45 critical projects and initiatives.

I am excited about our new Economics and -- or excuse me -- Business and Economics branch. They're going to be focusing on doing fiscal and economic impact reports and also job and housing reports.

Moving over to our funding for the Central Valley segment I just wanted to point out that our Central Valley segment has an $8 billion appropriation. Currently, year-to-date we've spent 3.4 billion, as is displayed here. We have 4.6 billion in appropriations remaining and today, we have the $2.1 billion in cash. But during the bond sales, as the program moves forward, we'll be selling more bonds to actually match what we need.

Now, I'm really excited about this slide. I do want to spend a little time on our Contract Management Office. A big part of what we do, now our office has been fully staffed for about a year now. And I would personally believe in state service, our Contract Management Office is state-of-the-art. We've centralized approximately 40 percent of all contract management activities. This gives the contract managers more time to better manage their contracts. A big part of what we do is training and how to effectively manage our contracts. In 2017, we had a total of 26 training classes. And we have about 22 more scheduled.

The bottom portion shows our policies and procedures. I'm proud to present that 100 percent of our contract managers have signed off on their policies and procedures and also the rules and responsibilities, which I'll be highlighting in the next two slides here.

Well, I know our CMO team also does -- they do manage two of our critical contracts. One is the RDP contract at $700 million. And the other one is our Finance and Audit Committee -- or excuse me -- the Financial Adviser not to exceed $40 million.

Here's a summary of our performance for the RDP contract. Once the 2018 Business Plan is completed, we'll be entering Work Plan 3.

This next slide shows the RDP's performance on the budget versus invoice. And this one shows the RDP's performance on the delivering of their plans. Currently, they've delivered 173 completed deliverables, which is slightly below the plan of 200. By the end of the month, and in some of the discussions we've had today, we will have a Monthly Cost Performance Trends and Variants Report for all the major contracts. And this will centralize the monitoring of the burn rate, which will help some of the situations we find ourselves in today.

Finally, the Business Oversight Committee, this is a brand-new committee. We just finished our charter; this Committee, which will introduce a commercial and business discipline within the organization.

What you're looking at here is our guiding principles. It's consistent, are these items consistent with the 2016 Business Plan? Our funding sources aligned with the funding positions and priorities of the organization? Is there a sound business case and value for money and are assured that proper review by all key areas?

Here are the steps to develop the business case, to assess the business case alignment with the guiding principles and then the CFO will make a recommendation to the CEO and if appropriate, it will go to our Board for approval.

And then finally, I wanted to highlight some of the cost reduction initiatives we currently have going on in the Finance Office. They are basically breaking up into four categories. We have estimating strategies, cost savings/value engineering, cost deferral/cost avoidance and finally scope change.

With that, I'd like to conclude my presentation and turn it over to Paula. I'll be happy to answer any questions. Thank you.

CHAIRMAN RICHARD: Questions for Mr. Fong? That's good, thank you.

(Off mic colloquy.)

CHAIRMAN RICHARD: Well, I couldn't tell from you smile whether you were happy or wanting to ask a question.

BOARD MEMBER PASKETT: Well, I (indiscernible).

BOARD MEMBER ROSSI: Your microphone is off.

CHAIRMAN RICHARD: Your microphone?

BOARD MEMBER PASKETT: Rossi doesn't have any, so I'll go ahead anyway.

As I was reading the materials in the last couple of days for the Board meeting, I did notice this new Commercial Office and you touched on it. And so that's interesting to me and somewhat encouraging and maybe you can give a little bit more information. Are you taking a new strategy with the projects, so that you layer on top of it, a business case analysis before there's a green light to proceed?

MR. FONG: Correct. It's couple of roles. One is obviously the budget scope changes, all that will go through a scrutiny's analysis on "should we do this?" A part of the challenges that we have with the three agenda items you just saw today was we have a set budget. The budget's already spent. So if something's more a priority one, than something else, then we take the money and move it over. What the Business Oversight Committee will validate that one that's occurring, but also start asking those questions that you asked today. What happens to that other contract who just got their scope reduced?

BOARD MEMBER PASKETT: Right.

MR. FONG: We'll dive into that, but also to look at it a more commercial business discipline. We have to get our arms around it. This project has to make money. And so how we build it, we just want to look at another set of lens. And also everything that goes to the Board will have to be run through this Committee first, hopefully to answer some of those questions that came out today.

It's really to emphasize the financial and a commercial discipline within the organization.

BOARD MEMBER PASKETT: Which is very encouraging that that's a concept that is going to be introduced, and then I only have one other question. And you had a lot of information that you presented in a short amount of time, so I was very impressed. You did mention that you're going to have a contract review process and related it back to a lot of our questions today. Is that a new process or you're going to --

MR. FONG: It's a new process.

BOARD MEMBER PASKETT: Okay.

MR. FONG: And the Project Management Office that's been around for about a year-and-a-half, it's just been fully staffed recently. One of the things that we want to manage is how the contract managers manage their burn rate, take a look at their variances and the trends on what they're spending their money on, so we don't come to the Board and say we need funds and we need it by the next month.

It's to help prevent that and help support the contract managers so that we're making sure that we're spending the money in an appropriate fashion, but also within the guidelines of the contracts.

BOARD MEMBER PASKETT: So those are two very encouraging changes, Mr. Chair. And I don't know if that's due to your leadership or a collective leadership, but it's nice to see those two items.

CHAIRMAN RICHARD: No, I'm certainly not going to take credit for it. I think that the staff -- well, I will also say Finance and Audit has been driving a lot of this. But you know, Mike Rossi said for a long time that our motto should be that we're not building a railroad, we're building an enterprise. Because the law requires that this has to operate without an ongoing operating subsidy.

So I think anything that -- there are a lot of decisions that have been made. A lot of people are empowered to make decisions around the program, but those decisions can have impacts on the ultimate enterprise value. So I like this -- like you, I like this approach very much --

BOARD MEMBER PASKETT: I do, yeah.

CHAIRMAN RICHARD: -- because I think what it does is it interposes a management structure that says these decisions are going to be looked at through the filter of not just short-term impacts on costs and so forth, but the longer-term impacts on a program's economic viability. And I think that's very good that we have the leadership team focused on that.

So I really give credit to Tom Fellenz, the Interim CEO and the Executive leadership team, which includes Russ Fong and Jon Tapping and Roy Hill, as the Chief Program Delivery Officer. I think this Business Oversight Committee is a very good (indiscernible).

BOARD MEMBER PASKETT: It's a great idea, Russ and Tom. And it's nice to see this development in a short amount of time.

CHAIRMAN RICHARD: Great.

Other questions for Mr. Fong?

MR. FONG: Thank you.

BOARD MEMBER MILLER: I have.

CHAIRMAN RICHARD: Yes. I'm sorry, Ms. Miller, excuse me. I didn't mean to miss you.

BOARD MEMBER MILLER: Thank you. No, that's all right.

First of all, I wanted to thank you for briefing me ahead of time and for the rest of the staff, Tom and Mark and Jon and others. I just have one question on just who -- and I'm sure you have this, but it's the procurement satisfaction -- in other words, because this is a construction project. As concrete's delivered and rebar all those kinds of things, you have an oversight construction manager who's checking specs on all of that?

MR. FONG: Yes, we do. This is probably a question a little bit out of my element, but I know we do.

BOARD MEMBER MILLER: Oh, I'm sure it's not. Fire away.

MR. FONG: As the Chief Finance Officer, I'm going to turn around and probably look at --

CHAIRMAN RICHARD: We have a --

BOARD MEMBER MILLER: Or maybe I'll ask this after, to whoever the appropriate person is. Just because it helps for your business finance in the future if you've got a project that's been built to spec.

MR. FONG: We do have a quality assurance team.

BOARD MEMBER MILLER: Right.

MR. FONG: And actually Mr. Tapping is going to present next, or (indecipherable).

BOARD MEMBER MILLER: Okay. Thank you.

MR. FONG: Thank you.

BOARD MEMBER PASKETT: Dan, I had -- I'm sorry, I have one more.

CHAIRMAN RICHARD: Sure.

BOARD MEMBER PASKETT: And it's more Tiki Taki and we could address this in the next Board meeting and it's probably something for Tom. So in the deck, on page 31 there's a pay-go bullet for Cap and Trade up through 2030?

CHAIRMAN RICHARD: Right.

BOARD MEMBER PASKETT: And so I didn't follow it that closely, but with the extension doesn't it require two-thirds approval in future years, just for the expenditure or did I get that wrong?

CHAIRMAN RICHARD: No. My understanding is that as part of the agreement, the legislative agreement on Cap and Trade -- well, actually I'm sitting here --

BOARD MEMBER PASKETT: Staring at our expert.

CHAIRMAN RICHARD: Actually we have a subject matter expert on the Board who could speak to this, but Dr. Arambula, do you want me to give my description or do you want to do it?

EX OFFICIO BOARD MEMBER ARAMBULA: No, go ahead.

CHAIRMAN RICHARD: Okay. I apologize. That was not appropriate.

So my understanding is that in the agreement that was reached, it was agreed that a ballot measure would be put before the public on the 2018 June ballot that would provide that in 2024, and only in 2024 there would be, if the ballot measure passed, that it would require that in 2024 the expenditure plan for that year would require a two-thirds vote. My further understanding is that every year before and after that, it would be a majority vote of the Legislature passing the expenditure plan.

BOARD MEMBER PASKETT: Okay. That was my question.

CHAIRMAN RICHARD: So it's sort of like a fire break, if you will. I think it was the thinking on the part of the members of the other party who wanted that.

So Assemblymember --

BOARD MEMBER PASKETT: Okay.

CHAIRMAN RICHARD: -- how'd I do with that?

EX OFFICIO BOARD MEMBER ARAMBULA: That sounds correct.

CHAIRMAN RICHARD: Okay.

BOARD MEMBER ROSSI: You'll notice he didn't say it was correct. (Laughter).

CHAIRMAN RICHARD: No. He also didn't say it with the microphone on, (laughter) so let the record show the Assemblymember said that what I just said was correct.

BOARD MEMBER PASKETT: So Russ I was -- to put it in pay-go with the Chair's explanation I'm now more comfortable. Thank you.

MR. FONG: Good.

CHAIRMAN RICHARD: All right. Yeah, I think the market's going to look at that and they'll have to wait and see if the ballot measure passes, but until it does they probably look at that and assume that it is not conducive to financing, right?

BOARD MEMBER PASKETT: Thank you.

CHAIRMAN RICHARD: Right. Okay, other questions? Okay. Thank you. Thanks very much, Russ. I know a lot of work went into all that, so that's good.

Ms. Rivera, you're back.

MS. RIVERA: I'm back. And I have two slides that identify audit reports that we've issued since our last update. And then I have two slides that talk about audits that we're working on right now. So if you have any questions, feel free to slow me down.

We issued a report on design-build oversight. The scope was to see if the risk model of Authority design acceptance and oversight is being maintained. And we just looked at CP1. We found that there had been a lot of progress from where we started the audit to when we finished the audit. And we recommend that lessons learned be compiled and used in subsequent CP or construction packages, sorry.

We completed an audit of third-party agreements and how those contracts are managed. And we found that the invoicing on some of those third-party agreements did not allow the contract manager to identify the work that had been performed and whether or not it was actually necessary. We also found that the contract manager could be doing other alternative analysis. And so we recommended that they look at some other ways to assure the work's been done.

We completed our first incurred cost audit, a contract compliance audit. We looked at the costs that were billed and reimbursed and determined that there were some costs that did not comply with the terms of the agreement. But it was 0.4 percent, so we found some money that needed to be repaid, but we don't have any overall concerns on how our largest contracts for A&E, within the A&E services are being met.

We did a pre-award review, which is the review we do of contracts that are awarded based on qualifications only. We take a look at the cost proposed before the contract is executed to be sure that it's based on actual labor rates, current overhead rates, and actual other direct costs.

We completed an audit on third-party estimating, the process that the regional consultants and the RDP are using to estimate third-party costs. And we found that they had some areas that would improve their process, but we didn't find anything that we highlighted as a flaw in their process.

We also finished an audit on the project construction management materials oversight.

CHAIRMAN RICHARD: Excuse me one second, Ms. Rivera?

MS. RIVERA: Yes?

CHAIRMAN RICHARD: Just on that one we have some experience with third-party contracts. And of course those contracts have come in higher than estimated before. So I guess my question is you looked at their processes?

MS. RIVERA: Yes.

CHAIRMAN RICHARD: I think I know the answer to this, but were you able to go back and look at -- was there anything from your work that gives us any insight into why we missed some of those costs early on? I mean --

MS. RIVERA: It seems to have been due to the granularity with which the estimate was developed. At the

15 percent design, the estimates are created and that's not based on very detailed information. And then as the estimates progressed, there was not that additional granularity added into the estimates.

CHAIRMAN RICHARD: So for your purposes, for looking at their processes, you identified some areas where those could be improved. But, maybe this is a little outside your area, but I mean how much do you think that will improve the forecasting of these costs?

MS. RIVERA: They feel like it will greatly improve the forecasting of the costs. Right now, there's a general -- is it rural, is it agricultural, is it housing? So there are some generalities that are applied to those third-party costs and to use specific parcels or whether or not we're going to have alternative technical concepts, viaducts, above ground. Using that additional information, we'll get better estimates.

CHAIRMAN RICHARD: Okay. Thank you. Sorry for the interruption.

MS. RIVERA: And then we also completed an audit on the project construction management materials oversight, which is what you were asking, Director Miller. We have a project construction management contract, a firm for each design-build contract that is working with the Authority as the oversight of that. And we've just looked at their materials oversight and whether or not the materials the design-builder is using meet the standards and specifications.

So that was this specific audit. And so we found there were some procedural things that the Authority can do better to manage those contracts.

BOARD MEMBER MILLER: Thank you.

MS. RIVERA: Sure.

Audits in progress, we're looking at the right-of-way critical parcel acquisition process. All right-of-way parcels are not equal in their priorities. And so we're looking to see the process that they use to prioritize those parcels. We're looking at the design change process whether or not the steps that they perform and the order in which they perform those steps are the most economical and efficient use of that process. We're looking at project controls. We're looking at current policies and practices for project controls, including schedule management and cost management.

I am finalizing a small business follow-up review on the source of the information for the small business reports the Authority prepares. We're working on an audit of the hiring process, if there are any economies of efficiencies that we can find in that process and that's specifically for state staff.

We also have a contract compliance, an incurred cost audit going on, to see if the contractor has complied with the contract provision and specifically federal cost principals.

So that's what we have going on right now. Are there any questions?

VICE CHAIR RICHARDS: Thank you, Paula.

MS. RIVERA: Thank you.

VICE CHAIR RICHARDS: Any questions from anybody? Okay. Thank you.

Scott?

MR. JARVIS: Good morning, Members of the Board. My name is Scott Jarvis. I'm the Chief Engineer for the Authority and I'm going to give a very quick program delivery status update. And I'm going to focus on project delivery. We've talked about some of the challenges that we've had today. I'll also talk about the corrective actions that we're taking. I'll touch on the audit responses that Paula just went through. And then I'll also give a project delivery update on some of the main functional areas of our Project Delivery Program.

So I'll start with contingency management. We've had quite a bit of discussion on that this morning. And so you know obviously, contingency is needed to cover the unknowns on the project. There's a lot of information on this slide. But really what it focuses on is what is our process, how we inform the Finance and Audit Committee what the CEO is authorized to do.

And I think what's really important is that bottom bullet. Contingency management is directly related to change control. And we've had some discussions on that today as our ability to manage change on the projects, and especially related to additional scope that's added through various means and added to our contracts. That's been a real challenge for us, as far as staying in the budget within our projects.

So as far as, just real briefly and talking on contingency of CP1, we had a discussion on that this morning. But really to summarize it at a very high level the challenge that we had was we delivered projects to construction very, very early in the project development process, even for the design-build model. We didn't have right-of-way. We didn't have railroad agreements. We didn't have most of the other third-party agreements. We didn't have some of the key environmental permits. And we had very little information on utilities, so obviously a lot of challenges that the team has had to deal with and work their way through.

The positive side of doing that is we have really advanced this program. There is a lot of construction going on, on the 119 miles down in the Central Valley, especially on the CP1, about 31 miles of construction at various locations. But there has been a cost to that and there have been challenges of risk that the Authority retained and took into construction and has led to some major change orders.

Now we did follow up with CP2-3 and CP4. They followed shortly after CP1, but we were able to incorporate some lessons learned into CP2 and CP4, related to the contingency assessment as detailed there. One of the major things that we did as you see on the far right there, is that we used a 90 percent confidence level on CP2-3 and CP4. And on CP1, we used a 50 percent confidence level. But like I said CP2-3 and CP4 followed closely after CP1, so a lot of those challenges that we've had on CP1 we also have on CP2-3 and CP4, but we actively manage and mitigate those challenges to the extent that we can.

So in a very big picture what were some of our initial challenges? You know, it really gets down to the big three: organizational challenges, policies and procedures, tools and systems. When we went out to construction, we essentially were a planning organization. We had been working many years on planning and environmental clearance processes and we went to construction very quickly. And so during that period, now we are working on corrective actions. We've implemented many corrective actions. We continue to implement them, as we continue to improve.

One is organizational. We have talked about some organizational changes this morning, but one of the main ones is we've transitioned to more of a project management organization to successfully manage construction projects that management has to take place -- boots on the ground where the work is taking place -- and so we've really worked towards implementing that project management organization, and even more so, a task management organization where you drill down into the major tasks of the project, have clear responsibility and accountability.

Policies and procedures, we've transitioned. We've developed many policies and procedures now related to project delivery as outlined there.

And tools and systems. We've been able to advance many of our tools and systems that we didn't have when we originally went out to construction. One of them is the Project Management Information System. We are making progress on that, sometimes not as fast as we would like. But there are some of the major modules that have made some really good progress on our PMIS.

And the second to the bottom bullet is really important. The Resource Loaded Master Program Schedule that we are working on now to really define our plan, moving forward and really that helps us to manage the program with that Resource Loaded Master Schedule. But, very important at a project level, is then use that information to develop detailed project work plans.

Again, to be successful, you have to manage at the project level. So you have to have that clear work plans in place. Who does what by when and with what resources.

And as you can see, there's a lot of other continuous improvements that we have accomplished and continue to focus on, in the program delivery area. But what I do want to draw your attention to is the last bullet, which is advancing project development for San Jose to Merced section, or just all future contracts. And we are advancing engineering and geotechnical investigations, environmental permits, right-of-way to the extent that we can. Surveying and mapping as we go through the process of delivery and get a preferred preliminary alignment, we'll be able to advance right-of-way even more, and our third-party agreements.

So we are moving forward on a lot of those functional areas that we had not advanced before going to construction in the Central Valley.

So I want to touch on the audits that Paula went through. And I want to say that we really welcome the work that Paula does. Her and her team do a great job and they help us focus. They help us understand some areas where we need to improve, so it's an opportunity for us to continually improve our processes. So Paula touched on these areas. I will just say for each of them, we read through the recommendations very carefully, we develop an action plan and we manage those action plans for each of the audits.

Now, I'm going to transition into project development or the preliminary engineering and the environmental phase. A very big picture is that as part of this project management organization, we have adjusted schedules and costs to reflect the current environmental clearance plans. We continue to focus on the very important environmental clearance section: Silicon Valley to Central Valley line. But while doing all that, we're keeping the state wide perspective in mind, while efficiently using our resources. We have limited resources, so we want to make sure that we're efficiently focusing them on the most important environmental clearance areas.

As far as our major accomplishments to date, we have those two major section clearances in the Central Valley, which has enabled us to go to construction. We've also environmentally cleared the electrical interconnections and we continue to work closely with our stakeholders, FRA and cooperating agencies, to expedite the reviews and clearances. And Mark talked about some of those in more detail in some specific sections.

I'm just going to go through these slides very, very quickly. The Central Valley is where we're the most far along on our environmental clearance and we continue to work on three major environmental documents as described there. Northern California, this is a very high priority for us including the San Francisco to San Jose section. We have Caltrain construction ongoing in this section, so it's from a schedule standpoint it's very important for us to advance our environmental clearance there and coordinate with that Caltrain construction work that's going on.

And as mentioned, the San Jose to Merced, we've talked about that earlier this morning and the importance of that section.

The Southern California section, we're working on four major environmental clearance documents. And we're at the stage where we're performing the preliminary engineering; we're working towards the project definition as we work to preferred preliminary alignments within those four sections.

Right-of-way, there's been a lot of talk on right-of-way. We're aware of a lot of right-of-way challenges that we have had, continue to have, but I do want to mention that there has been significant progress, tremendous right-of-way acquisition. We have acquired and transferred to our contractors over 1,100 parcels, so a huge right-of-way program, a lot of progress.

However, primarily due to the slow start the acquisition lags behind the original plan. That's part of the risk that I talked about earlier that the Authority retains. We gave our bidder some dates with right-of-way. We haven't met all of those, so we continue to have some construction delay cost exposure with right-of-way. But with the advancement, right-of-way is no longer on the critical path for construction on CP1. There's 13 locations under construction and more starting, so that's very good news.

And we have focused on CP2-3 and CP4, on really the critical parcels so the contractor can start and continue construction. And from a right-of-way perspective we do have areas where the contractor can go to work on CP2-3 and CP4. So we do have some progress there.

Now, in the Central Valley, the majority of the parcels, the original parcels that have not been acquired yet are in the eminent domain process. So it's very important that we try to quickly go through that process.

And a way that we do that is obtaining orders of possession, so the contractor can go to work even if we don't have full ownership of the parcel.

So accomplishments where I go into some details on each of the contracts, but the high-level summary as I described it working on CP1 in many locations and have locations on 2,3 and 4 where the work can start.

Now I'm not going to get into the details here, but if you like graphs, there's all kinds of numbers here. I will just summarize though. At the top, the dark blue is the original plan and this is CP1. There had been changes. There's been a scheduled cost increase, so that plan is changed. And the yellow is our alternative plan that we have established and we're very close as far as in the numbers, to the alternative plan that we established back in 2015. And our brown, is where we're at. And you can see 644 to 677. We're pretty close to where we've predicted we would be back in 2015.

This is for the northern extension part of CP1, the north part of the project. And you can see with the brown line being above the blue, we've consistently stayed above the plan in that area of the project.

This is for CP2-3. The green is original acquisition plan. Now, what occurs is there's a lot of design changes. They're primarily contractor requested design changes for right-of-way. And so that gives contractually, it gives the Authority additional time. We have an additional 12 months. It's really what that pink line represents, is that re-baselining, based upon changes to the contract, primarily contractor requested changes. And then the brown is where we're at compared to that plan.

So we're fairly close, but we are lagging behind. But again the focus has been on critical areas to get the contractor to construction. CP4, we are ahead of that changed plan, related to right-of-way, but behind the original acquisition plan.

Third-party agreements is the next major functional area I want to talk about. Overall, we've made some very good progress in the area of utilities. There are certain utilities, AT&T, PG&E, Level 3 Communications, where we've set aside provisional sums. It wasn't part of the contractor's bid, so that is a risk that the Authority retains.

Progress is continuing. There has been cost pressure in this area, especially related to the PG&E relocations primarily on CP1. So we've worked to establish some improvements including a coordinated monthly meeting. We analyze the past bid results, looking for ways to more efficiently procure and complete this work, including working with PG&E and AT&T, four more vendors to increase the competition. That's what drives prices down is competition.

And as far as the policies and procedures, we're developing a best practices manual to guide the future third-party coordination. So here's a high level summary of the status of the master agreements for third party. If you look at the total there, the second from the right, we have executed 127 of the master third-party agreements that have been identified; 102 have not been executed. But then if you look over at the far left you see, like for example, in the Central Valley where 90 have been executed, 10 are unexecuted, so significant progress where the work is going on.

And then if you look to the far right, we've also been focusing on the Valley-to-Valley and as you can see, 100 executed, 33 non-executed. So this really reflects the areas that we focus on negotiating an execution of the third-party agreements, based upon where the work is being performed.

As far as a construction summary, there's significant field activity on CP1. We have some limited field activities on CP2-3; CP4 is primarily in the design phase. We do anticipate a more extensive construction plan, as far as starting on CP2-3 and CP4 later this year. We do continue to see risk using our risk models of looking forward and identifying risks, primarily due to additional costs through railroad agreements, third-party infrastructure, right-of-way delays and utility relocation. That's really the big four.

But, as we look forward and see those risks, we're able to mitigate and manage to the extent that we can. So we're really focused. We understand the context of delivering that Central Valley, as it fits into the overall V to V.

So I'll just kind of skip through here, because these get through some details as far as accomplishments. CP1, as you can see, there's a listing there of 13 active constructive sites that are ongoing and we're also starting construction in four other areas, so really some great progress on CP1. CP2-3 really has been more on the design and the design-related activities, clearing and grubbing, demolition, geotechnical exploration for design. And again, we expect construction to ramp up starting later this year.

I do want to say, that on CP2-3, we have received some significant cost and time-extension claims that have been submitted by the contractor. And Executive leadership is involved in that to develop strategies, moving forward.

CP4, overall, has been going well. It was our last contract, but if things if schedule go as planned, they will begin construction at a couple of overpass locations, prior to the end of this year.

Critical issues and mitigating actions, we've had the critical issues with right-of-way. And again, the real focus there is the critical parcels, getting the parcels needed for construction.

Utility conflicts and relocation, I've touched on that and some of the improvements we've made. Railroad intrusion protection barrier requirements, that's a change to our contract for the most part. There was a smaller amount that was bid upon. Most of it has changed, so we're working with the railroads and the contractor to come up with more cost efficient ways of -- instead of the concrete intrusion protection barrier.

And northern extension work, we were looking at ways of how can we really efficiently deliver this work. It's being done by change order. We believe that we could probably get some more competitive prices through a competitive bidding process. So we're looking at some alternatives there, as far as where we can maybe cut that work off and look to competitively bid for future work on the north extension.

One of the major changes we did make in the design though is we revised the alignment to avoid the need for an intrusion protection barrier. So that was a significant savings in the range of about $40 million on the north extension.

CP2-3 critical issues, again there's really a consistent theme throughout the Central Valley, railroad issues, right-of-way, and again we're really focused on executive partnering on CP2-3 to work through some of those major challenges.

CP4, railroad intrusions for additional cost pressures, some right-of-way parcel delay, not as significant as CP1 and CP2-3.

So this is a lot of details kind of showing where we're at on the contingency on the projects. I'll just say if you go to the far right you can see we're at 6 percent in July on CP1, which is low. We want to be 10 percent or more. And that's part of why we had the Board item today for shifting of funds to provide some additional funding for change order work.

CP1 schedule, we are ahead of the re-baseline schedule based upon the time extension that has been provided to the contractor.

CP2-3 contingency, plenty of money in the contingency at this point, but as we look forward we do see some significant risks on CP2-3. And CP2-3 is behind. The blue is the contractor's original schedule. This is based upon the amount of work that they've performed, the earned value and you can see that they are behind their original plan, but close to what we had predicted, based upon a forecast that we had established in June.

And CP4, if you look on the far right, you see 15 percent contingency. So again we do have some significant money in the contingency on CP4, but there are risks that we're managing that I outlined. But CP4 is probably the contract we feel the most comfortable at this time, from a financial management standpoint. And CP4 is behind their original plan. But with construction starting later this year we expect that brown forecast line to be moving up sharply to ultimately intersect with the plan.

Okay. So with that, that's a very high level trip through program delivery status and I'd be happy to answer any questions if you have any.

CHAIRMAN RICHARD: Just right at the end on CP4, it was moving pretty fast. But I thought the contract amount was 446, but the estimate at the end of the right was 453? Is that a discrepancy that (indiscernible) --

MR. JARVIS: Well, that would include the change order amount, I mean ultimately. Yeah.

CHAIRMAN RICHARD: Okay. And is that an approved change order or an anticipated change order?

MR. JARVIS: I believe that's approved, yes.

CHAIRMAN RICHARD: Okay. Other questions?

BOARD MEMBER CAMACHO: Mr. Chairman?

CHAIRMAN RICHARD: Yes, Mr. Camacho?

BOARD MEMBER CAMACHO: You glossed over CP2-3. What is the magnitude of the problems that there are in terms of dollars?

MR. JARVIS: Their claims are hundreds of millions of dollars.

BOARD MEMBER CAMACHO: I'm sorry?

MR. JARVIS: Hundreds of millions of dollars is their claim amount. So there're major issues that we're dealing with. Of course, many of them are in dispute and that's why we're going through the process of resolution.

CHAIRMAN RICHARD: Can I suggest that we --

BOARD MEMBER CAMACHO: For the -- I'm sorry.

CHAIRMAN RICHARD: This probably is something -- I just want to say that some of this I think probably ought to be discussed in closed session, because it's a matter of claims and potential litigation. And I think that you should get all the answers that you want to get, but I do think that some of this we should probably --

BOARD MEMBER CAMACHO: I just want to couch the question in terms of are we in fact looking at mitigating these, this contract?

MR. JARVIS: Absolutely.

BOARD MEMBER CAMACHO: Thank you.

MR. JARVIS: Yes.

CHAIRMAN RICHARD: Right. Yeah, I mean I think it falls into two categories. One is what do we think the cost should be. And what do they think the cost should be.

BOARD MEMBER CAMACHO: Of course.

CHAIRMAN RICHARD: So I think those numbers are far apart at this moment, all right?

Other questions? Okay. Thank you. Thanks, Scott.

MR. JARVIS: You're welcome. All right, I'll turn it over to Jon.

BOARD MEMBER PASKETT: May I ask just a --

CHAIRMAN RICHARD: Yeah.

BOARD MEMBER PASKETT: -- quick comment? This I don't know, might have been more instructive for me anyway to hear this presentation or maybe it's Tom, before the contract vote.

CHAIRMAN RICHARD: I'm sorry. I didn't understand what you're saying, it would have been --

BOARD MEMBER PASKETT: Maybe in the future when we have these presentations, if it makes sense on the agenda to front load it and to give us context as Board Members prior to voting on some of the contract changes.

CHAIRMAN RICHARD: Oh, to have this presentation before? Right, okay.

BOARD MEMBER PASKETT: Right.

CHAIRMAN RICHARD: Yeah, and that's a very good point. I think we generally try to arrange the agenda so that we get action items first, in case Board Members have to leave. But there should be exceptions to that and I understand what you're saying, so that's worthy of consideration.

MR. TAPPING: Good, I think it may be afternoon, but Jon Tapping back at you.

CHAIRMAN RICHARD: It may well be, yeah. There's a risk that it's afternoon already, yes. (Laughter.)

MR. TAPPING: A 90 percent probability, I'm here in my risk management capacity as part of the Finance and Audit Committee briefing that we do routinely. I wanted to go in a slightly different direction, because of my acting assignment of Chief Operating Officer, has opened the door really to a lot of organizational issues and risks that we've been facing.

We have been tracking organizational risks and monitoring them, but it's with our Executive Committee, with Ross Fong and Tom we've been given the opportunity, I think, to make some real change. And we have already made some real change with the organization and how we run the organization. So I wanted to talk a little bit about the organizational risk and what we're doing to mitigate the organization risks, as we move forward in managing this program.

This is basically just your five quadrant standard risk process. You identify them, prioritize, analyze, manage, monitor and control. And so as a risk manager we do that with the costs and schedule risk. We run the complicated Monte Carlo analyses to get a level of confidence. But we also do it on a qualitative basis, with a number of risks, including organizational risk. So when we look at our program we have definitely the project delivery risk that Scott talked about in detail today, programmatic risks that span over all of the projects and organizational risk.

So some of the enterprise or organizational risks that we've identified through various processes in the past are integration of all of our functional units, some people call them silos or cylinders of excellence. As we have grown rapidly, we've been maturing lately and we've done a reorganization that breaks down some of these barriers.

Let's move on. I think Scott touched upon, and I just wanted to drive home again, that we do the quantitative and project level risk management. This is I think Scott spoke to a lot of these in his presentation, so I'm going to move on to organizational risks.

So we have a number of initiatives that we have done over the last year or so. We've got quality process assessments where we look at things like communication roles, accountability, who's responsible, who's accountable in basically looking at who makes decisions? And how are our decisions sustainable? We've done surveys and we've done evaluations. And so we've identified basically our risk drivers as integration, alignment, rules, responsibilities, requirement clarity and those other items that you see there.

So those have been really the focus of what we're looking at now, in our Executive Committee in how to manage this program moving forward -- really just prioritizing. You know, a lot of it is communication, getting the right people in the right room to make the right decisions at the right time and making sustainable decisions.

I want to touch upon the org chart very briefly. So we've reorganized to have our rail delivery -- and you can see there on the bottom, one of the yellow boxes -- an infrastructure delivery as well as Chief Engineer Scott, who is really the custodian of the standards and the policies and procedures for engineering. And then there's support services, which would include project controls.

So we've consolidated all those functions under a Project Delivery Office, and under myself, as the Acting Chief Operating Officer. And that's really been an improvement in getting, for example, there's competing values or discussions between infrastructure delivery and rail delivery. And so it has really helped in opening up that communication.

And we put in place a committee structure, which I'll talk a little bit about later, which actually feeds into what Russ talked about, the Business Oversight Committee.

I’m going to skip through this slide, in the interest of time. And so in managing all of these risks: integration, roles, responsibilities we have a number of initiatives under way. Program review, we've been having workshops in the regions to clarify organization charts below those yellow pillars, which I've showed you on our general organizational chart. Clarifying roles and responsibilities, accountability for who makes decisions, responsibility for carrying out the decisions, and who's consulted and who's informed. So really clarifying how we make decisions as we move forward.

I don't want you to think that we're bureaucratic with all these committees, because they're really -- we have a Program Delivery Committee, which is all of the program delivery pillars, which I mentioned. But we have an operations meeting every week, with everyone in the room and, you know, we have action items and papers and decisions that we make through that committee structure.

And likewise we have an Executive Committee. It consists of Tom Fellenz, myself and Russ Fong, which basically meets to confer on those Executive level decisions that may flow out of the program and delivery committee meeting. And as Russ had an excellent presentation on the Business Oversight Committee one of the things we want to do as we move forward is have a more robust financial and budgeting and change control process.

So these are all things that we've put in place in the last two months. It's been very exciting to be part of this effort and to be given the autonomy really, to set up this organization in a manner that we think is the best functioning for how we move forward.

So moving on to basically -- so basically that's my discussion on organizational risk. It's been, it’s fun. We're moving forward. We're making decisions. And it's really been exciting, actually. We're enjoying it.

These are just current other, on my risk management role, things that we've been undertaking. We talked about the CP1 through 4 risk informing contingency analysis update, which is ongoing. We've started our Valley-to-Valley programmatic risk assessment, looking at schedule and applying schedule risks. And there's a lot of support work that you see, that we're doing in support of the 2018 Business Plan.

And so that really concludes my presentation. And I'll be happy to take any questions at this point.

CHAIRMAN RICHARD: Questions for Mr. Tapping?

Okay. Thank you, Jon.

MR. TAPPING: Thank you very much.

CHAIRMAN RICHARD: Okay. Our last item on the public session is a discussion of the 2018 Business Plan. Mr. Fellenz?

MR. FELLENZ: Yes. Good afternoon, Mr. Chairman and Board Members. We're going to have a PowerPoint presentation.

CHAIRMAN RICHARD: Of course we are.

MR. FELLENZ: Okay, just click it. Okay, there we go, the 2018 Business Plan is how we title this, but we're going to do a little bit more than that. So the purpose of today's briefing is to review the following matter, the statutory requirements for the Business Plan. We're going to go over three prior business plans: 2012, 2014 and 2016. I’m also going to show you the guiding principles and core values that we embodied in the most recent 2016 Business Plan. What key events have occurred since the 2016 Business Plan and then finally, the timeline for developing the draft and final 2018 Business Plan.

The Authority is required to prepare, publish and adopt and submit to the Legislature a business plan every two years. It's due May 1st of every even year, so it's due on May 1st, 2018. Before submitting the plan to the Legislature, the Authority must publish a draft, hold a public hearing, and have a 60-day public comment period. So what we plan to do is release that draft in early February to allow the public comment period to transpire, the 60 days, and to allow enough time for us to go to the April Board meeting for you to have presented to you, for your consideration, the approval of the final Business Plan. At that time, we will also summarize the comments and information that we receive from the public during that 60-day period.

The Public Utilities Code outlines a series of required elements in the Business Plan and I show them here. It has to show a description of the service to be provided, proposed environmental and construction schedules, capital cost estimates, ridership and revenue forecasts, operation and maintenance costs, a break-even analysis and that's for purposes of complying with Proposition 1A or our bond funding mechanism.

And we have to show what the sources of the funding that the Authority has and intends to access, and any written agreements that we have with public or private entities to fund system components. We have a requirement to show public, private development strategies for delivering Phase 1.

And then finally reasonable risks that the project may encounter and how we intend to manage those.

Going back to 2012 we wanted to go back to this business plan, because this was a significant change or turning point I believe, for the project. Prior to this, there were business plans, but we had really been purely a planning organization and in 2012, we now had the potential to have access to large amounts of funds to use for construction and move the project into a completely different position, which we have done.

And so I've shown here the three stages of phased implementation that we set out in the 2012 Business Plan. We looked at an initial operating section north: San Jose to Bakersfield, south: Merced to San Fernando Valley. And the IOS South was identified as the initial operation section that would be the first to be constructed at that time although we didn't really have funding, outside of the Central Valley identified, because the Cap and Trade Program hadn't yet been implemented. We didn't have funds to build the entire IOS at that time, but we had selected the south as the first one.

We also, at this time created the foundation for what's called a blended strategy, where we integrate at the ends of our system, which we call the Caltrain Peninsula area and the Los Angeles Metropolitan area. And we wanted to integrate the high-speed trains with the existing inner city or regional systems. Those operated by LA Metro in the south and then Caltrain in the north. So that was the blended concept that we had placed in this 2012 Business Plan and carried all through 2016.

We also put high-speed rail in the context of state-wide rail modernization, because there's a lot of rail systems existing with this state. It's important that we connect up with these. There was $950 million of Prop 1A bonds for connectivity projects, which have all been allocated for those projects and many are underway. But we're building more than just a high-speed rail system. We're building a statewide rail system and we're part of a statewide rail plan that agency and Caltrans puts out. And you'll see that at the end of this calendar year. We're going to -- CalSTA, the transportation agency, is going to put out the statewide rail plan.

We also updated ridership and revenue forecasts and cost estimates at that time. And I showed the Phase 1 estimate of cost at 64.4 billion at the time. And we had sufficient funding at that time, as I mentioned, to fund the Central Valley. Those two funding sources were Prop 1A and federal funds. We also created an initial business model framework that we've continued to use.

And we provided the basis for an appropriation, in 2012, under SB 1029, where the federal funds that we had in the grant programs and the Prop 1A funds for the Central Valley as matching funds were appropriated.

Then in 2014, I've listed here some of the elements of that particular business plan. We reported on our progress since 2012. We continued with this three-stage phase implementation, initial operating section, a Bay-to-Basin, and a Phase 1. Statute requires that we report specifically on Phase 1 for example, as well as other smaller section.

We also updated our forecasts for ridership and had some external reviews by the Union of Railroads, the Government Accounting Office and others. We just think this was very important to verify the credibility of the plans that we were putting out.

We introduced a risk-based break-even analysis to show financial viability. It's called Monte Carlo approach and at that time, our capital cost estimate was 67.6 billion. And we had sufficient fundings at that time, again same as in 2012, to fund the Central Valley construction. But we also were working with the Legislature and the Governor to become part of the Cap and Trade Program. So we did some important work for advancing that program, which became law and we received significant funding under that program, in the summer of 2014.

Then I have a picture here of the 2016 Business Plan map and some other facts about the 2016 Business Plan. Again, we updated our forecasts and estimates. We had reduced the capital cost estimate down to 64.2 and we updated the funding plan to include now the Cap and Trade Program and the funds that we would be receiving under that Cap and Trade Program.

We also showed that if the Cap and Trade Program had extended out to 2015, and had had a $500 million per year revenue stream to high-speed rail, that we potentially could fund 20.8 billion, assuming also that there were some opportunity to get private financing using that Cap and Trade revenue. And that would have allowed us to look at the possibility of finishing the Valley-to-Valley, which we describe in our Business Plan as the Silicon Valley to the Central Valley, as an operating section.

We changed, or course, the implementation strategy to deliver the north first. And that was because of us having a better shot of receiving enough financing to have an operating system at that time. And we emphasize a commitment to make concurrent investments to Southern California, between Burbank and the Los Angeles Corridor. And we had previously, in SB 1029 the Legislature had appropriated $500 million for projects along those corridors in the south. Recently of which, we've had an approval by this Board in the Rosecrans/Marquardt to grade separation.

And then finally, we reemphasized our commitment to seek additional federal funds.

We did develop some guiding principles and core values in the 2016 Business Plan. So I share those with you for your consideration on continuing to adopt these, or to refine them in an appropriate manner. The guiding principles are to fulfill our Prop 1A commitment, to provide for California a true high-speed rail system. I think we just talked about that, the trains that run at the faster speeds, just as set out in statute.

And we evaluate new opportunities and adapt to changing circumstance to deliver the system as quickly and as efficiently as possible. And we also look to reduce costs and construction time using our blended implementation strategies, which I had gone over the blended system.

We also, as a guiding principle, match projects with available funding and deliver them under appropriate business models. And finally advance other strategic early investments, with our partners, many of them in the rail transportation business.

And we also have, as you should see here, the core values, safety and security, partnership with the public and private sector, training and employment opportunities including disadvantaged workers. We have a robust small business DBBE program. And we also are committing to sustainable land use and economic planning.

There's a number of key events since 2016 that I wanted to point out. We've made a lot of progress in construction in the Central Valley, 14 active construction sites. I saw that Scott had put down 13. I guess I'm just updating and there's 14 now, over 113 miles.

The design and environmental clearances have advanced considerably at the project level.

The funding plans have been approved by this Board for the San Francisco to San Jose peninsula and Rosecrans/Marquardt grade separations. Those unlock Prop 1A funds that this Board had committed, in both the bookends north and south.

And we initiated procurement for an early operator. In fact, those proposals for the four operators are due today.

We also presented to the Board just in the last couple of months, an economic report that shows the significant benefit and economic benefit that this project has had. And it's 2.3 billion have been invested and that's yielded 3-and-half to 4 billion in other economic benefits over the 10-year period for 2006 to 2016.

We anticipate 2.5 billion of the American Recovery and Reinvestment Act funds to be fully expended. As Russ had mentioned, we're very close. And we did get this summer, thanks to our Legislature, an extension of the Cap and Trade Program to 2030. It had only been out to 2020 previously.

And then, I believe this is the last slide. This just shows the development of the draft and final Business Plan, the timeline verbally described there. And this summer and fall we've been working on capital cost estimates, operating and maintenance cost estimates, ridership estimates. And we started to draft the plan itself.

By December and January, we anticipate finalizing all the forecasts of cash flow and continue with the drafting. February, we're going to release the draft; February to April, public comment; April Board, present it to the Board, including that errata sheet I mentioned to show any technical corrections and also comments from the public that we received in writing, a summary of that. And then finally if the Board approves it we will submit it to the Legislature by the due date, May 1st.

I'm happy to answer any questions.

CHAIRMAN RICHARD: Questions for Mr. Fellenz? Okay.

Director Miller?

BOARD MEMBER MILLER: Turning it on or turning it off (setting up mic) April Board meeting and then you have to submit it to the Legislature May 1?

MR. FELLENZ: Correct.

BOARD MEMBER MILLER: Does that allow you enough time, you think, to incorporate if there's questions or is that --

MR. FELLENZ: Yes. It's a mad rush to do that, but will be probably be about a two-week period. So we essentially have a draft. We consider public comments, and to the extent that there are changes that we think are appropriate we would have a couple of versions, possibly the original, and listen to the Board's --

CHAIRMAN RICHARD: In the past what's happened is that there's been extensive public outreach. And so, there's I think a statutory requirement for at least one public hearing.

MR. FELLENZ: Right.

CHAIRMAN RICHARD: Which we usually have contemporaneously with the Board meeting. But occasionally in the past we've had more than one public hearing --

MR. FELLENZ: Yes.

CHAIRMAN RICHARD: -- because it's a minimum, it's not the maximum. And in 2012, for example, when there were major programmatic changes being suggested we had several public hearings. We had quite an extensive record of comments. So there was a lot of that that was in the run-up between the draft document and the final document. And then many of those were incorporated in what the staff presented to us. But by that time I think the Board had become familiar with the general thinking of the direction of public comments, so it wasn't as though there was some sharp inflection point at the Board adoption that then had to get reflected into the final document.

Having said that, certainly we want to make sure that the Board has ample opportunity to reflect, to direct and so forth and I think part of this as well is it gets into production dynamics, which is that people like to produce a nice readable version of this. But in terms of meeting our statutory requirements to present something to the Legislature, it may that there's enough time to get that done with the polished document following afterwards.

BOARD MEMBER MILLER: Okay. So between that -- when it's out for public comment, it's obviously a public draft. So you bring it and present it to the Board?

MR. FELLENZ: Yes.

BOARD MEMBER MILLER: During that time period?

MR. FELLENZ: Yes. In February, we'll present it to the Board.

BOARD MEMBER MILLER: You'll come and -- thank you.

MR. FELLENZ: To the Board, yes, yes.

BOARD MEMBER PASKETT: So?

CHAIRMAN RICHARD: Director Paskett?

BOARD MEMBER PASKETT: So I probably have more of a statement than a question. At the last approval vote I was reluctant to support the plan, because it deemphasized the Southern California investments. But I understood why. And it was a difficult, but critical decision to do so.

So as we start this process and you begin to take in information and suggestions, my hope is that you'll consider the Southern California piece of this and maybe with all the creativity of the staff and the collective intelligence, there will be opportunities to show more of a benefit for the Southern California portions, particularly with the positive development with Cap and Trade and that certainty.

MR. FELLENZ: Okay. Yes, definitely, we'll look at all those possibilities.

CHAIRMAN RICHARD: Other questions?

MR. FELLENZ: Thank you.

CHAIRMAN RICHARD: Okay. Thank you very much, Tom.

Now, that completes our public agenda. I know it's getting late, but I'm going to suggest that we have a recess to a closed session of the Board, at least to address a few items. And after that we will report back. So the Board will now enter into closed session in the anti-room off of this main conference room. And we'll report back any actions after the closed session. Thank you, all.

(The Board convened into Closed Session at 12:37 p.m.)

CHAIRMAN RICHARD: Okay. The Board has completed its closed session. There are no items to report. And with that, this meeting is adjourned. Thank you.

(The Board reconvened from Closed Session at 1:43 p.m. Having no further business, Chairman Dan Richards adjourned the Board Meeting at 1:43 p.m.)

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REPORTER'S CERTIFICATE

I do hereby certify that the testimony in the foregoing hearing was taken at the time and place therein stated; that the testimony of said witnesses were reported by me, a certified electronic court reporter and a disinterested person, and was under my supervision thereafter transcribed into typewriting.

And I further certify that I am not of counsel or attorney for either or any of the parties to said hearing nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of October, 2017.

PETER PETTY
CER**D-493
Notary Public

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I do hereby certify that the testimony in the foregoing hearing was taken at the time and place therein stated; that the testimony of said witnesses were transcribed by me, a certified transcriber and a disinterested person, and was under my supervision thereafter transcribed into typewriting.

And I further certify that I am not of counsel or attorney for either or any of the parties to said hearing nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of October, 2017.

____

Myra Severtson
Certified Transcriber
AAERT No. CET**D-852