

CALIFORNIA HIGH-SPEED RAIL AUTHORITY

BOARD MEETING

TRANSCRIPT OF PROCEEDINGS

CALIFORNIA BOARD OF ACCOUNTANCY BUILDING

2450 VENTURE OAKS WAY STE 300

4TH FLOOR CONFERENCE ROOM (SUITE 420)

SACRAMENTO, CA 95833

TUESDAY, MAY 21, 2019

10:00 A.M.

Reported by:
Peter Petty

APPEARANCESBOARD MEMBERS

Lenny Mendonca, Chair

Tom Richards, Vice Chair

Lynn Schenk (Absent)

Daniel Curtin

Nancy Miller

Bonnie Lowenthal (Absent)

Ernest Camacho

EX OFFICIO BOARD MEMBERS

Assemblymember, Dr. Joaquin Arambula (Absent)

Senator, Jim Beall (Absent)

STAFF

Brian Kelly, Chief Executive Officer

Tom Fellenz, Chief Counsel

Barbara Rooney, Deputy Director of Legislation

Russell Fong, Chief Financial Officer

Roy Hill, Deputy Chief Operating Officer

Moamen Ramadan, Acting Board Secretary

APPEARANCES (Cont.)

PRESENTERS:

Roy Hill, Deputy Chief Operating Officer

Russell Fong, Chief Financial Officer

Barbara Rooney, Deputy Director of Legislation

Tom Richards, Vice Chair, Finance and Audit Committee

PUBLIC COMMENT:

Roland Lebrun, Self

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P R O C E E D I N G S

10:02 a.m.

PROCEEDINGS BEGIN AT 10:02 A.M.

SACRAMENTO, CALIFORNIA, TUESDAY, MAY 21, 2019

CHAIR MENDONCA: Okay, I'd like to call to order
the meeting of the California High-Speed Rail Authority.
Can we do the roll call, please?

MR. RAMADAN: Good morning.

Director Schenk?

BOARD MEMBER SCHENK: (Absent).

MR. RAMADAN: Vice Chair Richards?

VICE CHAIR RICHARDS: Here.

MR. RAMADAN: Director Curtin?

BOARD MEMBER CURTIN: Here.

MR. RAMADAN: Director Lowenthal?

BOARD MEMBER LOWENTHAL: (Absent).

MR. RAMADAN: Director Camacho?

BOARD MEMBER CAMACHO: Here.

MR. RAMADAN: Director Miller?

BOARD MEMBER MILLER: Here.

MR. RAMADAN: Senator Beall?

EX OFFICIO BOARD MEMBER BEALL: (Absent).

MR. RAMADAN: Assemblymember Arambula?

EX OFFICIO BOARD MEMBER ARAMBULA: (Absent).

MR. RAMADAN: Chair Mendonca?

1 CHAIR MENDONCA: Here.

2 Quorum?

3 MR. RAMADAN: We have it.

4 CHAIR MENDONCA: Please stand for the Pledge of
5 Allegiance, please?

6 (The Pledge of Allegiance is made.)

7 CHAIR MENDONCA: Okay, thank you.

8 We will start with public comments here and I
9 have one card from Mr. Roland Lebrun. Please.

10 MR. LEBRUN: Good morning, Chair and Members. So
11 as you may recall I just commented on the ETO's review of
12 the current CAPEX plans at the Finance and Audit Committee
13 earlier today, but I would now like to touch on the OPEX
14 plan. And before I do, I'd like to make a couple of
15 comments about transparency.

16 The May 1st report to the Legislature was a
17 milestone, but I'm not aware of the Authority having issued
18 a press release pointing to the document. What is of
19 greater concern is that the report was two reports from the
20 Early Train Operator marked "confidential, restricted."
21 These reports are no longer available on the Authority's
22 website.

23 Moving on to the OPEX plan, I believe that a
24 recommendation to start operation in Central Valley was
25 rigged. Specifically, the Authority's consultant provided

1 incorrect data to the ETO, including inflated ridership
2 estimates in the Central Valley, inflated costs in the
3 Peninsula and grossly underestimated HSR ridership between
4 Gilroy and San Francisco, completely ignoring a potential
5 combined 150,000 trips a day to and from the Monterey
6 Corridor, Gilroy and Hollister.

7 And last but not least, it is unclear why the
8 Early Train Operator should have to pay Caltrain \$8 million
9 a year for trackage rights in the Peninsula given that the
10 Authority contributed \$600 million in Prop 1A bonds for the
11 Caltrain edification. Thank you.

12 CHAIR MENDONCA: Thank you, Mr. Lebrun. Are
13 there any other public commentary cards? Okay. Seeing
14 none, I'd like to move to the first item, which is to
15 consider approving the April 16th, 2019 Board minutes.

16 BOARD MEMBER CAMACHO: So moved.

17 CHAIR MENDONCA: Is there a second?

18 BOARD MEMBER MILLER: Second.

19 CHAIR MENDONCA: Any comments or corrections on
20 the minutes? All those in favor, say aye.

21 (Ayes.)

22 CHAIR MENDONCA: Any opposed? Abstaining? Thank
23 you. The motion carries.

24 MR. RAMADAN: Vice-Chair Richards?

25 CHAIR MENDONCA: How do I just -- we did them.

1 Okay, I'd like to start the meeting with some
2 comments for the record. Good morning members of Board and
3 the public. Welcome to this California High-Speed Rail
4 Authority Board meeting, on Tuesday May 21st, 2019. We
5 have some important items to get to today, most notably
6 adopting the Revised Baseline Budget for the Central Valley
7 Segment that will address revised cost estimates and
8 importantly provide a deeper contingency to address known
9 and unknown risks for this project.

10 This step follows this body's important action
11 last year to adopt its first Program Baseline Budget. Just
12 as was said in the 2018 Business Plan the Baseline Budget
13 was subjected to rigorous risk analysis and more detailed
14 cost review over the last several months. We released the
15 results of that work in the 2019 Project Update Report on
16 May 1st.

17 Today, we have an opportunity to take and adopt a
18 risk-based program budget for the Central Valley Segment,
19 completion of the environmental work on all segments
20 statewide and the fulfillment of our commitments to vital
21 bookend projects in the Bay Area and Los Angeles. This is
22 an important step to progressing the project forward and
23 getting the work done.

24 With the completion of this work, we can then ask
25 the Executive Team to turn to their direct responsibility

1 with three simple words: deliver, deliver, deliver.

2 This is our first public meeting since the
3 release of the Project Update Report on May 1st. This
4 document was by far the most comprehensive project update
5 report ever put out by this body. This one was unique,
6 because in addition to providing the routine project update
7 and accomplishments to the Legislature it also included
8 specific items our 2018 Business Plan committed us to
9 including: an analysis and recommendations from the Early
10 Train Operator on the potential early service options we
11 identified in the Central Valley and Silicon Valley in the
12 2018 Business Plan; a review by the ETO of the cost
13 estimates contained in our 2018 Business Plan benchmarked
14 against the ETO's real world experience of constructing
15 high-speed rail assets; and finally, updates on our cost
16 estimates, what we'd call "estimates of completion;" and
17 application of an important enhanced risk analysis to the
18 cost estimates that were originally in the 2018 Business
19 Plan.

20 With the benefits of this work the Project Update
21 Report, provides a well-defined path to deliver the high-
22 speed rail in California through a pragmatic approach. It
23 proposes to achieve the vision of high-speed rail
24 articulated in Proposition 1A back in 2008, in a familiar
25 building block approach that allows us to build the system

1 in segments based on what we can reasonably afford. This
2 is precisely how transportation systems are built and it's
3 how we should proceed too.

4 Now I'd like to comment on the FRA. On May 16th
5 after two-and-a-half months of silence the Federal Railroad
6 Administration, FRA, sent our CEO a 25-page letter to
7 inform us that it's following through on its earlier threat
8 to de-obligate \$929 million in the fiscal '10
9 appropriations obligated to this project.

10 First on behalf of the people of California, our
11 local partners, the working men and women who are building
12 this project, and the more than 500 small businesses who
13 have contributed to it, we will fight this FRA's
14 unprecedented harmful and misguided action.

15 As Governor Newsom said, the Trump
16 Administration's action is illegal and a direct assault on
17 California, our green infrastructure and the thousands of
18 Central Valley workers who are building this project. This
19 is California's money, appropriated by Congress, and we
20 will vigorously defend it in court.

21 This morning, the State of California and the
22 California High-Speed Rail Authority filed a legal action
23 in the federal court challenging the FRA's decision to
24 terminate and de-obligate nearly \$1 billion in federal
25 grant funding for the California High-Speed Rail Project.

1 The filing said the fact is that California has performed
2 its obligations on the project and construction is well
3 advanced furthering Congress's goal to fund the development
4 of segments of phases of inner city or high-speed rail
5 corridors.

6 Since the summer of 2018, the FRA has stopped
7 cooperating on the project, including refusing to process
8 important environmental clearances and refusing to count
9 hundreds of millions of dollars in state-funded
10 expenditures toward California's obligation to provide
11 matching funds under the grant.

12 The FRA has made no efforts at conciliation or
13 compliance required by its own procedures and policies and
14 its 25-page termination letter set out a raft of detailed
15 allegations about the Authority's supposed non-compliance
16 that the Authority had no opportunity to rebut before the
17 FRA took action.

18 The FRA's sudden decision to terminate this grant
19 is a violation of its own policies and procedures, was
20 arbitrary and capricious, is an abuse of discretion
21 contrary to the law, and threatens to wreak significant
22 economic damage on the Central Valley and the state.

23 The Authority has asked the federal court to
24 vacate and set aside the FRA's action terminating the grant
25 and de-obligating nearly \$1 billion in federal funding for

1 the project. The Authority will also be asking the court
2 to enjoin defendants from re-obligating and distributing
3 these funds to any other recipient or from otherwise
4 transferring the funds.

5 While this project has long been a political
6 football, our determination to get the work done and bring
7 high-speed rail to California is undaunted. The project is
8 the right thing to do from an mobility, environmental and
9 economic standpoint. It's right for California and it's
10 right for the nation.

11 We will continue to do our work in a transparent
12 and determined way to bring this transformative project to
13 reality for Californians. We will be open and honest about
14 our challenges and opportunities as we have been.

15 Megaprojects have challenges. And our job is to
16 be clear with the public about what those are, the risks
17 associated with them and how we intend to overcome them.
18 However, we do not quit simply because challenges exist.

19 In 1956, President Eisenhower signed the Federal
20 Aid Highway Act. The initial cost estimate for the
21 interstate system was \$25 billion and was expected to be
22 completed in 12 years. It actually ended up costing 114
23 billion in non-inflated adjusted dollars and took 35 years
24 to complete. No president stopped funding the project,
25 because there were challenges in construction and it took

1 longer than originally planned. Instead, they continued
2 the work and saw the system completed in 1992.

3 Most would say the interstate highway system has
4 fulfilled a very useful purpose. Today, one quarter of all
5 vehicle miles driven in the nation are on the interstate
6 highway system. The core lesson from that: perseverance
7 through challenges delivers transformative infrastructure
8 projects.

9 As one small business leader wrote to the Federal
10 Railroad Authority, quitting isn't leadership, leading is.
11 So let's get on with it and build this.

12 Okay. Can we move on to Item A and that is
13 considering accepting an Updated June, 2018, Program
14 Baseline for the 119-mile Central Valley segment bookends
15 and environmental.

16 MR. HILL: Okay. Good morning, Chair --

17 CHAIR MENDONCA: Good morning.

18 MR. HILL: -- Directors and CEO. Russ Fong,
19 Chief Financial Officer and myself would like to present
20 the May 2019 Baseline Update. I will go through the slide
21 deck with you.

22 The purpose, obviously, is to update the segment,
23 the 119-mile segment between Madera and Poplar. It focuses
24 on our commitments that we already have as far as our
25 federal partner, the ARRA grant, which includes that

1 construction of that segment but also the ROD environmental
2 clearance and acceptance by December 2022.

3 It also maintains our commitment to both the
4 north and the south investments in California entirety. So
5 with that, I will go to slide three. Basically, we are
6 looking from the Board actions today, four things. One is
7 to accept the proportion of the update of the program
8 budget, the vast majority of that being the Central Valley
9 including tracking systems, which has a new budget of 12.4;
10 the ROD budget of 0.8; bookends and investments of 1.3
11 billion; other funded scope of 1.1 billion bringing a total
12 of 15.6. Now, I will go through these in more detail as
13 part of the presentation.

14 We would also like you to accept our strategy of
15 mitigating the lack of federal engagement on our ROD
16 process by approving our approach to CEQA first to mitigate
17 those delays and to progress forward with the program.

18 The third item [sic] is to approve two specific
19 major contract amendments and also seven budget adjustments
20 to other contracts.

21 We also would like for approve CEO delegation of
22 authority to manage the project contingency within this new
23 baseline update. Slide four.

24 (Off-mic colloquy to adjust the slide deck.)

25 So slide four, let me point out the highlight

1 right away. The big increase to this 1.8 increase from the
2 10.6 to the 12.4 is additional contingency what we call
3 prudent level of contingency. We said in the 2018 Business
4 Plan and in the 2018 Baseline we would come back and seek
5 approval for the appropriate or prudent level of
6 contingency. You may recall that when we did that Baseline
7 review we had a P10 level of probability of success. In
8 simple terms, basically nine times out of ten we will be
9 wrong. One time in ten we will be right with those
10 budgets. Just like refurbishing your house that is not a
11 very high level of certainty.

12 Therefore we've come back now and we are seeking
13 a P70 level of contingency because we believe that is
14 correct. And from my own experience how you manage large
15 programs around the world of this type is with a P70 level
16 of confidence.

17 The other item that has increased in the budget
18 is the revised cost estimates, items that have accrued that
19 have changed since the last year. Basically that is just
20 under 5 percent. But also we've had just under 4 percent
21 of scope changes such as the IPB scope specification
22 changes and new scope. So that makes up the 1.8 billion.

23 With that additional 990 to a debt to achieve the
24 prudent level of contingency in the Central Valley Segment
25 we have 1.52 billion of contingency to manage the risk.

1 Okay. Slide five.

2 BOARD MEMBER CAMACHO: Can I ask a question about
3 that?

4 MR. HILL: Sure.

5 BOARD MEMBER CAMACHO: Going back to the other
6 slide, the 9.3 percent or the 990 million in additional
7 risk contingency, and we continue to use this word
8 "transparency." And I think that when we are presented
9 with a contingency we have defined that as unencumbered,
10 generally speaking, unencumbered money.

11 MR. HILL: Correct.

12 BOARD MEMBER CAMACHO: Is that 990 unencumbered
13 or being used for something else, and if it is --

14 UNIDENTIFIED SPEAKER: Those, whatever is being
15 used should be segregated from the contingency.

16 UNIDENTIFIED SPEAKER: Can you stand closer to
17 your mic, please?

18 BOARD MEMBER CAMACHO: Yeah. I guess what I'm
19 looking for is the issue of the contingency that we talked
20 about yesterday. So if in fact, if it is a true
21 contingency so be it. But if in fact it's encumbered
22 dollars then we should segregate that away from the
23 contingency, so we know really what we're playing with.

24 MR. HILL: Okay, let me absolutely clarify what
25 it is.

1 Contingency is the total money that we have
2 available for things that have not been encumbered. We
3 have identified as one would, as a professional way of
4 doing risk analysis, what those risks are against specific
5 line items within the program. We are aware of the known
6 items and we've put probability against them.

7 There will be a number of items, as with
8 everything, is unknown unknowns. But equally within that
9 contingency it is unencumbered currently, but identified
10 and how we will manage the project going forward is to draw
11 down against those specific line items.

12 If for instance, an item is not in the line-
13 specific called out in the contingency, we will have to
14 call upon the unknown allocated contingency and if you do
15 that, that is how we approve the budget. And that's how we
16 are managing this project going forward. So we're very
17 clear against every line item. The vast majority of this
18 risk contingency thought out (phonetic) is identified.

19 Okay. Slide.

20 BOARD MEMBER CURTIN: Mr. Chairman?

21 Could you just touch on the scope changes?

22 MR. HILL: Yes, sure. There are things in there
23 -- our northern extension, things like intrusion section
24 barrier. We also have the City of Fresno scope. We also
25 have a settlement with Kings County. Items like that, that

1 have changed in the scope. SR46 structures and then the
2 sweeper packages that were outside the scope, but we're now
3 putting in and identified them. So they're new items.

4 Okay.

5 Okay. Slide five, basically is the profile of
6 risk. If you see it on this slide that we absolutely had
7 no contingency, the budget would be below 11 billion. If
8 we went with an ultraconservative budget and attempted to
9 have 100 percent probability of success, we would be over
10 13.5. And again, this goes back to the ranges that we had
11 last year in our Baseline.

12 Again, the executive team and the program
13 strongly believe that a P70 is the way to manage this
14 project, hence the 12.4.

15 How did we come to this? Just to show you a
16 little bit of background on how we calculated it is
17 obviously we had the budget of 10.6 billion last year
18 approved. We took out the contingency that was part of
19 that budget, 530 million. We added in the scope and
20 estimate changes that I talked about previously. And then
21 we conducted the detailed Monte Carlo Risk Analysis. And
22 that gave us the 1.52 billion. And with the 990 million
23 additional prudent level brings it to the 12.4. So that's
24 how we actually undertook the overview of this process.

25 So the buildup you'll see here, the 12.4 and how

1 we get to a 15.6 billion, as I said at the beginning we are
2 totally committed to the bookends, to the ROD development
3 and to the Central Valley and other costs. And you will
4 see there that we have the 12.4 budget. We have the Phase
5 1 ROD items. We have the regional bookends, 1.3. And then
6 we have other costs on top. And those make up the approved
7 budget that Russ will talk about of 15.6.

8 So again, a different way of showing this, with a
9 little bit more granular detail for the projects.

10 Currently the CP contract projects. These are not the
11 design-build contracts. This is the CP project, which
12 includes other items like right-of-way etcetera in them.
13 The bills are broken down there and add up to the 12.4.
14 And again the additional items that make up the 15.6.

15 Those bookend and early investment commitments
16 you will see on the slide here, Caltrain electrification,
17 San Mateo grade separation, Rosecrans/Marquardt Grade
18 Separation, Union Link that is the 1.3 billion of our
19 investments to other parts of the State of California.

20 As I said at the beginning, the commitment to
21 ARRA, our obligation is to not only deliver the Central
22 Valley, but also our RODs for the remaining state -- part
23 of the states, which are absolutely key and essential and
24 opens up major developments, especially in the south and in
25 LA etcetera, because we clear corridors.

1 The thing I must point out here, as our Chair
2 already stated as far as the interaction or non-interaction
3 engagement by the FRA is having an impact. It is having an
4 impact in three ways. It's delaying our ROD approvals for
5 the Central Valley on the Wye and the LGA, it will effect
6 on a day-to-day basis. We undertook this Baseline review
7 and in order to do a Baseline, you have to have a snapshot
8 in time at one point. That point in time was the 1st of
9 May.

10 With the non-engagement of the FRA, there is a
11 date-for-day delay that will occur to any operating date
12 that we produce, because we are currently unable to achieve
13 an operating segment, because of the non-engagement of the
14 FRA.

15 Equally, at one point in time there will become
16 the fact that we will be unable to deliver the RO
17 requirements of RODs, because we will not be able to
18 mitigate further the impact of the FRA non-engagement. So
19 at a point in time in the future, it will be out of our
20 hands as far as delivering our ARRA scope.

21 I just need to make that very clear to everyone.
22 But we are undertaking mitigation as far as that CEQA First
23 process, which I'm asking you to approve that we are doing,
24 is in order to mitigate that delay by the FRA is to produce
25 the CEQA NOD approach for us.

1 BOARD MEMBER MILLER: I just wanted to ask a
2 question about do you know the date that that impact of the
3 FRA noninvolvement starts to be non-mitigatable? In other
4 words --

5 MR. HILL: Yes.

6 BOARD MEMBER MILLER: Okay, thank you.

7 MR. HILL: The date is mid-2021.

8 BOARD MEMBER MILLER: So it's June?

9 MR. HILL: June 2021.

10 BOARD MEMBER MILLER: Thank you.

11 MR. HILL: And it -- yes.

12 Okay. This basically is a very high-level
13 summary of those dates for the RODs that we anticipate or
14 hope to achieve with FRA engagement. We look to also the
15 construction package dates and I know there's a lot of
16 conversation and debate occurring. Joe Hedges our Chief
17 Operating Officer discussed this already this morning. We
18 are working with our teams to establish revised Baseline
19 schedules, budgets, etcetera as part of the exercise in the
20 Valley. We have taken account of those anticipated, that
21 is the risk analysis that we've taken, and this is what
22 we've produced as far as a schedule.

23 And then there is also, which we will talk to you
24 about, future things. We need to progress track and
25 systems, because track is part of the ARRA agreement. And

1 we therefore need to progress that to achieve the ARRA of
2 12-22. You will see the date here is, the completion of
3 the Central Valley date is 2027.

4 This is the specific contract amendments that I
5 am asking you to approve. We have two contracts
6 specifically: Parsons Transportation Group and STV. These
7 need approval. They are above the delegated authority to
8 the CEO and we seek the approval by the Board. There are
9 other contracts in transparency that we will approve as
10 part of the Baseline Amendments that are below the Board
11 approval level and they are issued through our Business
12 Oversight Committee and through the F&A Committee.

13 And then there are a number of budget
14 adjustments, pure budget adjustments for the contracts that
15 we have in place already. And this was all aligned, all
16 within the 12.6 and the 15.6.

17 Current challenges: I've mentioned already the
18 FRA challenge. Construction progress: We are resolving
19 and progressing the legacy items that we have had and
20 suffered from. The third parties' environmental right-of-
21 way issues are starting to clear. And you will see
22 substantial uptake in production in the Central Valley this
23 year.

24 As a footnote, not necessarily related to this
25 particular item, but funding as we all know is a challenge.

1 And in particular for us to deliver other parts of the
2 Phase 1 Project, but you will see -- and Russ will cover
3 the funding -- for what we are asking for today.

4 Near-term Board actions: I mentioned track and
5 systems. We will come back -- we've already gone out to
6 industry comment with the RFP, RFQ. And those will return
7 to us within the next few weeks. We will come to you as
8 the Board and seek approval to go out for track and systems
9 in June. Because of the part of the ARRA obligations, we
10 will come back in August for the RFP. And we will later in
11 the year, probably the fall time, come back to you and seek
12 approval to announce and award the maintenance facility
13 locations and operating control center and the HMF.

14 VICE CHAIR RICHARDS: Mr. Chairman, may I?

15 CHAIR MENDONCA: Sure.

16 VICE CHAIR RICHARDS: With regards to the track
17 and systems, can you just define again what is it that
18 we're obligated to complete, to be compliant with the ARRA
19 funding by December 31st of '22 with regards to track
20 and/or systems?

21 MR. HILL: We need to have the track laid and
22 then be able to operate trains.

23 VICE CHAIR RICHARDS: Okay. So where is the
24 money coming for the systems?

25 MR. HILL: We have the money in this budget,

1 enough to be able to complete the 119-mile segment. This
2 is part of the budget.

3 VICE CHAIR RICHARDS: Okay. And the reason then
4 to --

5 MR. HILL: No, sorry. Sorry, what is very clear
6 we've distinguished between what we need to have for the
7 119-mile segment ARRA requirements and future spend.
8 Either north and south or other parts of Phase 1.

9 VICE CHAIR RICHARDS: Okay, then. And then
10 what's management's --

11 (Mic cuts out.)

12 MR. HILL: You need to turn on the mic. Turn on
13 the mic.

14 UNIDENTIFIED SPEAKER: The mic's on.

15 VICE CHAIR RICHARDS: What's management's
16 approach then with going ahead with the systems at this
17 point, if you can just explain that to us?

18 MR. HILL: Well, the approach -- and this is part
19 of the proposal we will come to you with -- is the combine
20 the track and systems, because it's logical to have that as
21 one package.

22 It also has -- we are coming to you with a
23 proposal -- and it's still under review. We're still going
24 through it and until we have industry feedback we may
25 change. But current thinking is that we'll come back with

1 a 30-year maintenance O&M contract as part of that. So
2 therefore we combine those into a single responsibility
3 this long-term life cycle cost savings and that's the
4 purchase.

5 There would be a notice to proceed with various
6 parts of the additional work as and when we do it.

7 BOARD MEMBER CAMACHO: The systems that we're
8 talking about, we're talking about the control systems as
9 well, correct?

10 MR. HILL: Yeah, electrification and controls,
11 everything that we would need to --

12 BOARD MEMBER CAMACHO: As I understand it, I mean
13 one of the tours that I did in Japan, the systems are
14 integrated with the rolling stock. So that entity could be
15 then eliminated from participating in this procurement. Is
16 that correct, because if they offer rolling stock and
17 systems combined?

18 MR. HILL: Really, we need to seek the industry
19 comments and advice. And if they come back with
20 alternative procurement strategies we should consider them.
21 But currently, track and systems are combined, trains are
22 separate. But yes, I'm fully aware that in certain
23 situations trains are combined with full system provisions.
24 In other major programs they've gone out separately.

25 BOARD MEMBER CAMACHO: One last question in

1 regards to this. The tracking system is going to depend --
2 I mean, we have to lay this track for the 119 miles.

3 MR. HILL: Yes.

4 BOARD MEMBER CAMACHO: And the reason we're doing
5 this now is for the lead time; is that correct?

6 MR. HILL: Correct.

7 BOARD MEMBER CAMACHO: You need the lead time.
8 But that means that construction has to catch up.

9 MR. HILL: Yes.

10 BOARD MEMBER CAMACHO: In order for us to lay the
11 track.

12 MR. HILL: Absolutely.

13 BOARD MEMBER CAMACHO: So what is the impact of
14 the delay of construction and the laying of track? How is
15 that going to impact?

16 MR. HILL: Well, we have two things. One, we
17 have a 70 percent probability that the delays were taking
18 care of. We've got a plan to go forward with the current
19 forecast of completion. With the increase in production of
20 construction and that is taken account in this program. We
21 will revisit it when we have the revised Baseline schedules
22 in from the contractors and dealt with that.

23 But also we have two options available to us as
24 far as track. We have ballast system or the slab track
25 system. And we will evaluate that as part of the process

1 going out to comment to industry. We have left it open for
2 them to review those scenarios. Now, obviously if we had
3 an engaged FRA we could have further discussions as far as
4 timing etcetera. But that is not something we are able to
5 do at this stage.

6 BOARD MEMBER CAMACHO: Well, in my study of the
7 tracking systems, the ballast track system is obviously
8 less expensive to put in, but life cycle cost is a great
9 deal more expensive. So if we go in with a slab system
10 it's going to be cheaper and probably a little safer.

11 MR. HILL: Yeah.

12 BOARD MEMBER CAMACHO: And that's kind of what --

13 MR. HILL: I totally agree with you on it. I
14 mean, is the evaluation we need to make, taking everything
15 into account in the next few months and --

16 BOARD MEMBER CAMACHO: And will that be coming to
17 the Board?

18 MR. HILL: Absolutely. That is the business case
19 we need to have analyzed and made the decision and made a
20 recommendation as an executive on which strategy we take --
21 was taken, yes.

22 BOARD MEMBER CAMACHO: So we're going to be
23 asking for an RFQ then or an RFP?

24 MR. HILL: We're going to ask for an RFQ and an
25 RFP. Yes, correct.

1 VICE CHAIR RICHARDS: But for today's purposes
2 all we're doing is we're looking at the schedule. And we
3 know that you're going to be coming back in June for an RFQ
4 and then there would be another decision that the Board
5 will need to make one way or another if you come out to
6 August with the schedule with regards to the RFP?

7 MR. HILL: Yes. And I want to show you at this
8 stage that the team, the executive team, are calling in
9 experts from around the world not associated with this
10 program to look at and do a peer review of those
11 procurement specifications and the procurement strategy.
12 So people that have dealt with slab track, dealt with
13 ballast from around the world and sequent.

14 Okay. So that was a forward look. That finishes
15 my part of the presentation. I'll hand over to Russ Fong,
16 CFO.

17 MR. FONG: Thank you, Roy.

18 So an important part of the Baseline that Roy
19 just mentioned is our budget. And I like to walk you
20 through our two budgets, which is the Cap Outlay and our
21 Administrative Budget.

22 Let's focus first on our Cap Outlay Budget. And
23 that's on slide 15. Just to remind you, the Cap Outlay
24 Budget is our construction budget.

25 (Off mic colloquy re: slide deck.)

1 MR. FONG: Our Cap Outlay Budget that keeps
2 flashing on the wall there is our construction budget. And
3 just to remind folks it includes our right-of-way, design-
4 build contracts, environmental clearance, third-party
5 agreements, the RDP, the PCMs and the RCs and all other
6 supporting construction contracts.

7 Today, we're going to ask the Board to approve
8 two budgets. The first budget is our total program budget
9 of \$15.6 billion, which represents a 14 percent increase
10 over last year's budget of 13.7 billion. And secondly,
11 fiscal year 2019 and '20 annual budget of \$2.3 billion,
12 which represents a 26 percent increase over last year's
13 budget of \$1.8 billion.

14 On slide 16 on the bottom of Column G in the red
15 circle, I'd like to highlight that, the total program
16 budget reflects on slide 16, these three key areas. It
17 includes the Central Valley, which is the cost of \$12.4
18 billion; Phase 1 RODs, which is the one \$1.1 billion; and
19 the bookend investments of \$1.3 billion. The bookend
20 investments includes Caltrain, San Mateo and Rosecrans
21 grade separation projects and the LA Union Station.

22 The \$1.8 billion increase or 14 percent of the
23 budget increase from last year represents three key areas.
24 The first is additional contingency of \$990 million, cost
25 increases of \$477 million and scope changes of \$362 million

1 that Roy just went over.

2 Secondly, we want the Board to approve our annual
3 budget, which is requested at \$2.3 billion as reflected on
4 slide 17, on the bottom of Column G in the red circle.

5 This year, at 75 percent of the year completed,
6 we have spent 37 percent of our annual \$1.8 billion budget
7 of last year.

8 Moving on to our Administrative Budget, this is
9 on slide 18. This is our budget that supports our state
10 salaries and benefits and our standard operating costs such
11 as rent, office supplies, travel, training, IT. Here, the
12 Administrative Budget is displayed by office. We are
13 experiencing a 10 percent increase going from \$47 million
14 to \$51 million due to 10 new IT positions along with some
15 additional funds for IT tools. This chart represents who's
16 spending the money.

17 On slide 19, displays our admin budget broken out
18 by line items. This reflects what we're spending the money
19 on. This year, our admin budget, we spent at 75 percent of
20 the year completed, we have spent 57 percent of our budget.
21 Our lower than average burn rate is mainly due to our
22 vacancy rate, which actually has come down from last month.

23 Finally, I want to move over the slide 20. This
24 reflects our state position count of 236 state positions,
25 broken out by office. In the May Revised Governor's Budget

1 process we have requested an additional 35 positions in the
2 contract management and financial areas. As of yesterday,
3 I'm happy to say that both the Senate the Assembly
4 subcommittees approved this request. And we anticipate
5 requesting more state positions next year.

6 Finally, I'd like to draw attention to the last
7 slide. I believe it's slide 21. We are requesting your
8 approval to change the CEO's authority to transfer project
9 contingency as contained within the Baseline to existing
10 contracts for expenditures. The CEO would inform the Chair
11 of the Board of Directors on any transfers of project
12 contingency above the level established by the Board.
13 Staff recommends that this level be \$25 million.

14 This concludes our presentation and Roy and I'd
15 be happy to answer any questions.

16 CHAIR MENDONCA: I have one question and then we
17 can open it up for other Board members. On the approved
18 staff positions in the May revised, what's the timeline for
19 how soon we expect that they will be on board and how
20 confident are we that we'll be able to find the quality of
21 people that we want?

22 (Off mic colloquy.)

23 CHAIR MENDONCA: Oh, sorry. Did you hear that?

24 MR. FONG: Yeah, so I heard the question. So the
25 10 positions will be established July 1st or when the

1 Governor signs the budget, along with the 35 positions.
2 We're currently recruiting those positions today, but as
3 soon as the Governor signs the budget those positions will
4 be actually funded. So we're looking at July, so hopefully
5 sometime in July.

6 CHAIR MENDONCA: To fill them?

7 MR. FONG: To be able to yeah, establish those
8 positions, correct. But we are recruiting as of today for
9 those positions to get an early jump.

10 CHAIR MENDONCA: Okay. Great, thank you.

11 Any other questions or comments from the Board?

12 BOARD MEMBER CURTIN: I have one. What is the
13 existing CEO authority on project contingency transfer?

14 MR. FONG: So currently the way the process works
15 today is we have the three design-build contracts: the CP1,
16 CP2-3 and CP4. The CEO currently has delegation to move
17 contingency that we've done a Monte Carlo Analysis on, for
18 each one of those three contracts to move contingency to
19 the contract.

20 What we want to propose today is that same
21 process. Since we've done a Monte Carlo Analysis for the
22 entire Central Valley, is to give our CEO the ability to
23 move contingency to existing contracts. And again anything
24 above a recommended \$25 million will go to the Board of
25 Directors in advance.

1 BOARD MEMBER CURTIN: Okay. I got the process.
2 The question was what was the previous amount?

3 MR. HILL: Once allocated to contingency, we have
4 the ability to allocate any amount once it's allocated to
5 those contracts.

6 BOARD MEMBER CURTIN: Under the existing
7 authority, so we're now putting a limit of \$25 million or
8 is this an increase or?

9 MR. HILL: No. We come back to you. Currently
10 we establish a budget. There's a Baseline. We then come
11 back to you and ask for money to be transferred to a
12 specific contingency when we've done a risk analysis to a
13 specific contract budget. Once we have that in that
14 contract budget, we can allocate it and change the contract
15 without limit.

16 And what Russ is quite rightly saying is we now
17 want to do that, but with an added checkpoint of anything
18 above 25 million comes to the Chair or the Board.

19 BOARD MEMBER CURTIN: Okay. I'm still a little
20 baffled, but you bring those to the Board --

21 MR. HILL: No, we --

22 BOARD MEMBER CURTIN: -- not in the new proposal.

23 MR. HILL: Currently we do, yes.

24 BOARD MEMBER CURTIN: Yeah. Currently you bring
25 each and every one of them, I assume.

1 MR. HILL: Yes. Hence what you've seen in the
2 last year.

3 BOARD MEMBER CURTIN: Yeah. Okay. All right.

4 VICE CHAIR RICHARDS: So as I understand it, the
5 difference here as opposed to as you pointed it out, Roy,
6 when we have the budget allocated to say let's CP1, 2-3 or
7 4, it's already allocated. What we've now got if the Board
8 moves in this direction, we'll have a bucket with \$990
9 billion in it that hasn't been allocated to anything.

10 MR. HILL: Correct.

11 VICE CHAIR RICHARDS: And so what we're talking
12 about is the CEO's authority to -- so what we're being
13 asked for here is so the CEO has the ability to take up to
14 \$25 million out of that bucket, would be the threshold or
15 the upper threshold of his authority. Beyond that, I think
16 that there was some conversation that if there was a
17 request for more than that it would go to the Board Chair.

18 MR. HILL: Correct.

19 VICE CHAIR RICHARDS: For his advice on that or
20 at least --

21 MR. HILL: To inform the Board staff.

22 VICE CHAIR RICHARDS: Yeah. It wasn't for his
23 approval. I don't believe, but just you would advise him
24 that that's what has occurred.

25 MR. HILL: Correct.

1 VICE CHAIR RICHARDS: The other thing I
2 understand is that there will be incorporated in the
3 monthly Finance and Audit Committee Report, there will be a
4 schedule identifying what has been taken out of this \$990
5 million bucket since the last reporting period today of
6 financing.

7 MR. HILL: Absolutely.

8 VICE CHAIR RICHARDS: Okay.

9 MR. HILL: Absolutely. And also just as another
10 reassurance is this process goes through our internal
11 governance process of the Business Oversight Committee to
12 the Exec and through the F&A, so there is transparency.
13 There is governance oversight.

14 It is also worth pointing out there is a 25
15 million limit to new contracts. So for instance the track
16 and systems contract when we come to you regardless of if
17 that's -- as it's over 25 million, we cannot issue a new
18 contract over 25 million. The big thing there would be
19 that as we just talked about, we would be committing the
20 Authority to perhaps a 30-year O&M contract. So all new
21 contracts over 25 million still come back.

22 VICE CHAIR RICHARDS: So this is just, in a sense
23 it's tightening up reporting to the Board with regards to
24 this 990 million.

25 MR. HILL: Right. Sorry, I do -- maybe it's 1.5

1 billion is the total contingency, not (overlapping
2 colloquy.)

3 VICE CHAIR RICHARDS: Sure, of course.

4 MR. HILL: Correct. And because we have done a
5 Monte Carlo Analysis, as Russ said, for the whole project
6 as opposed to three individual contracts.

7 VICE CHAIR RICHARDS: Okay. And just as regards
8 the
9 \$990 million without going into a lot of detail, in the
10 2018 Business Plan, we were moving to a P10. And this is
11 moving it to a P70?

12 MR. HILL: Correct.

13 VICE CHAIR RICHARDS: And that's the basis of
14 this. Was there a reason in the preparation of the 2018
15 Business Plan, we didn't do it last year?

16 MR. HILL: Yeah. I think we stated at that time,
17 we said we'd given the information we have available to us
18 at that time. We would not be able to do that detailed
19 analysis and the number we came up with we would not feel
20 comfortable with. We wanted to spend the additional time
21 analyzing and to make sure that the P70 we came up with was
22 the right and prudent number.

23 VICE CHAIR RICHARDS: But the point is then if
24 you had that information last year, it would have been
25 incorporated in the 2018 Business Plan and already

1 accounted for in the budget for the 2018 Business Plan.
2 The 990 million would have been in there.

3 MR. HILL: Yeah. I see no reason why that would
4 not have been the case.

5 VICE CHAIR RICHARDS: Yeah. And it wouldn't have
6 been such a dramatic increase now, because it would have
7 already been accounted for then.

8 MR. HILL: Yeah. Exactly.

9 VICE CHAIR RICHARDS: But it was here, if we had
10 been able to calculate it. Yeah. Okay.

11 CHAIR MENDONCA: Other questions?

12 BOARD MEMBER CAMACHO: Sir, before we take a vote
13 on that issue, I would like to make a few comments.
14 Listening to what the Governor has said in the more recent
15 past, he talked about an opportunity for a fresh look and a
16 transparent review of the segments that we're going to be
17 funding.

18 With that in mind, I would like to make a
19 friendly motion to amend the recommendation to include a
20 motion that this motion would direct our staff through the
21 Early Operator to come back to this Board at our June
22 meeting, or certainly not later than July, with an analysis
23 of a side-by-side comparison of the Central Valley, the Bay
24 Area, Los Angeles and -- let's see (indiscernible) the LA
25 Corridor, Bay Area, Central Valley, a side-by-side

1 comparison.

2 And this analysis should include the ridership,
3 the greenhouse gas savings the congestion relief, the near-
4 term benefits and the completion date and a potential for -
5 - any potential for private investment and local matching
6 funds, which I believe might be available.

7 So I would like to include that into that motion
8 and move that we accept that.

9 BOARD MEMBER MILLER: Can I ask a question about
10 that motion? What's the side-by-side?

11 BOARD MEMBER CAMACHO: It would be a side-by-side
12 comparison of each of the elements that we have described.
13 The greenhouse gas savings, whether or not there's a
14 greater need for congestion relief. I think the two
15 bookends produce both the most congested areas in our
16 entire route. And I think that looking at the Los Angeles
17 Area Corridor and San Francisco presents tremendous
18 opportunity to have some relief. If in fact we're going to
19 look at funding any segment, then we should consider
20 everything, all of the elements that we have described
21 here.

22 As I pointed out in jest, and I wasn't great in
23 geography, but as I recall the State of California doesn't
24 end in Bakersfield. It actually extends to San Diego. So
25 we should in fact look at those segments that we're talking

1 about and may have some opportunities for this high-speed
2 rail.

3 BOARD MEMBER CURTIN: Mr. Chair, I second that
4 motion.

5 CHAIR MENDONCA: Okay. There is a motion and a
6 second. Any comments?

7 BOARD MEMBER CURTIN: Yeah, I wanted to comment a
8 little bit about the Baseline Budget, which I support, but
9 I do have questions about the track and systems portion of
10 it. I'm not an expert in that, but I thought we were
11 getting a little ahead of ourselves. I realize the long-
12 term issues there, but considering this amendment and which
13 I support, there may be some conversation about just how we
14 proceed in general.

15 I'm prepared to support the motion for the
16 Baseline Budget, but it also helps deal with the concept of
17 whether we're going to include systems in our going
18 forward. And I know ultimately we are, of course. So I
19 think that clarifies for me that question on the Baseline
20 Budget.

21 CHAIR MENDONCA: Do you want to answer that
22 question?

23 MR. HILL: Well, I think it was a heads up for
24 what's coming. And it was not intended to (overlapping
25 colloquy)

1 BOARD MEMBER CURTIN: Yeah, I understand that we
2 were going to get to look --

3 MR. HILL: And we will come back to you with the
4 full (indiscernible).

5 BOARD MEMBER CURTIN: We were going to get to
6 look it over later. And so there wasn't really a lot of
7 need for me to question that, but considering the
8 conversation that's going on with this amendment especially
9 it makes it easier for me to undertake and get behind this.

10 CHAIR MENDONCA: So any other questions or
11 comments? Go ahead, Tom.

12 VICE CHAIR RICHARDS: Yes, Mr. Chair. The only
13 thing I'm concerned about in what Director Camacho has
14 requested is I'm at amiss right now to really be able to
15 clearly define the complexity of the ask. And what I also
16 heard was this is something that the management and staff
17 was asked to come back for in 30 days. So I don't --

18 BOARD MEMBER CAMACHO: Well, not later than July.

19 VICE CHAIR RICHARDS: Okay, even 60 days. But I
20 don't know if there is anybody here at this point on a
21 quick response, Brian, where they can give us a sense of
22 what management and staff will be needing to do in order to
23 comply with this. It's pretty broad. I mean you've
24 expanded pretty much everywhere that we're reaching. And
25 I'm not suggesting that's not appropriate. I'm just

1 suggesting that I don't know how that can be done in a 30
2 or 60-day period with some level of certainty that I'm sure
3 you're looking for.

4 BOARD MEMBER CAMACHO: My initial conversations
5 with the staff have been that most of this information is
6 there and now has to be assembled.

7 VICE CHAIR RICHARDS: I don't know where the CEO
8 has --

9 CHAIR MENDONCA: Well, Brian is writing up a
10 question, so can I ask another question in the meantime
11 while we're doing that? Is the budget that we're being
12 asked today is at P70. And you said that that's staff's
13 recommendation that that is the certainty with which at
14 this stage in the project we should be aspiring for. Can
15 you just, in English, explain that to everyone and how --

16 MR. HILL: I can't do that in English.

17 BOARD MEMBER CAMACHO: No, ARRA English.

18 MR. HILL: Oh. All right. (Laughter).

19 CHAIR MENDONCA: And how that compares to other
20 project certainty at this stage of development. I think
21 it's an important element to understand what risk is.

22 MR. HILL: Let me cover there's two things there.
23 It is certainly the staff recommendation to manage this
24 program at this stage with this budget with the P70. I do
25 need to say you can have a P70 at any stage of a program.

1 The money difference in the contingency is obviously much
2 higher at the beginning of starting to refurbish your house
3 compared to just putting the front door on. So this is the
4 same with this.

5 All big programs from my experience around the
6 world manage at a P70. That's the management level to
7 manage a program. So we would expect that to be the right
8 level to have, but you can achieve a P70 at the very early
9 part of a program and at the end of the program, yes.

10 CHAIR MENDONCA: Okay. That's close to English.
11 I'll accept that as an answer.

12 BOARD MEMBER CAMACHO: I actually understood
13 that, so we're in good shape.

14 MR. HILL: I'm practicing.

15 BOARD MEMBER CAMACHO: Thank you.

16 CHAIR MENDONCA: Okay.

17 BOARD MEMBER MILLER: So, I also have just a
18 question to make sure that staff understands the magnitude
19 of the additional motion, if that's specific enough? Okay.
20 Thank you.

21 MR. FONG: Yes, to address I guess it was Tom's
22 question, what we need to do is we need to work with the
23 Early Train Operator and the Board Member to specifically
24 pull out exactly what we need to review. So we'll get back
25 to you with that.

1 And we will also need to work and do what we can,
2 going to work with the ETO on what options exist in the
3 other corridors with the revenues that we currently
4 have. And that's a big piece of their original study. We
5 should shoot for July with a commitment to report back in
6 June on where we're at if that's okay?

7 CHAIR MENDONCA: One more question related to
8 that, so management (indiscernible) --

9 (Colloquy re: microphone.)

10 CHAIR MENDONCA: This is a little early warning
11 of the power updates that are going to happen this summer
12 recipe short shut offs. the question was can management
13 conduct the analysis that Director Camacho asked for
14 without distracting from delivering on the budget, 119
15 miles that we are talking about today? These are separate
16 people oh, I just want to make sure. I think it is
17 important to have the transparency. I just want to make
18 sure we're not distracting from delivery.

19 MR. HILL: All three of us say yes.

20 CHAIR MENDONCA: Okay.

21 MR. HILL: We're in total agreement.

22 BOARD MEMBER CURTIN: Can I add one comment? I
23 know the ETO is going to be authorized or expected to take
24 a look at this, and I'm hoping they will reach out to the
25 areas, the partners in those areas that we work with

1 historically now to see if they have this data in some
2 capacity as well. And then they can analyze it, you know?

3 MR. HILL: Correct.

4 BOARD MEMBER CURTIN: Yeah, correct.

5 CHAIR MENDONCA: Okay.

6 BOARD MEMBER MILLER: Well, I was going to make a
7 motion.

8 VICE CHAIR RICHARDS: Okay. May I just ask one
9 other -- or make one other comment? yeah, I think it
10 should be clear from what Director Camacho is asking for
11 that it doesn't get somehow integrated with what occurred
12 at -- and I don't mean integrated in that sense -- but
13 this is a separate request from what was just requested of
14 our Financial Advisor an hour or so ago to prepare a
15 business case for the Bakersfield to Merced
16 Alternative. So this is not something that is tying onto
17 that, and it's a separate assignment, not one that's being
18 proposed to be added to the KPMG review.

19 UNIDENTIFIED SPEAKER: Your microphone cut out.

20 MR. HILL: Yes, the answer is yes. We understand
21 that. It is separate exercise.

22 VICE CHAIR RICHARDS: Okay. So that's clear?

23 MR. HILL: Yeah.

24 CHAIR MENDONCA: And we'll report back that in a
25 second, Tom, as well just to make sure for this Board

1 meeting we have that request.

2 VICE CHAIR RICHARDS: Yes.

3 CHAIR MENDONCA: Okay. Any other comments or
4 questions from Board Members?

5 BOARD MEMBER CAMACHO: Just to comment on your
6 question, it should actually be easier since they've
7 already accomplished the Central Valley. So we're looking
8 at really studying the bookends and making a business case,
9 right?

10 BOARD MEMBER MILLER: Is it the bookends that
11 you're asking the side-by-side?

12 CHAIR MENDONCA: I believe so.

13 BOARD MEMBER MILLER: Yes?

14 CHAIR MENDONCA: Ernie, yeah.

15 BOARD MEMBER CAMACHO: Yes.

16 BOARD MEMBER MILLER: Yes? Okay. Then given
17 that motion, I'd like to incorporate it into a motion to
18 approve staff's recommendation for the four Board actions
19 considering implementing the Updated Program Baseline. And
20 if you have something that I should be reading from let me
21 know, but I'm just going from the --

22 (Microphone cuts out. Colloquy re: microphones.)

23 BOARD MEMBER MILLER: Okay. To accept the
24 mitigation strategy dealing with the FRA, to approve the
25 two contractual amendments with Parsons and STV as well as

1 the seven budget adjustments to the Updated Baseline
2 Delivery Plan. And then to approve the CEO's delegation of
3 authority to manage project contingency within the Updated
4 Program Baseline of 25 million provided that monthly
5 reports are delivered to the Finance and Audit Committee
6 specifying the use of contingencies.

7 CHAIR MENDONCA: Okay. I'm going to ask one more
8 time, to the team sitting in front of me, are you confident
9 we can get that work done in the timeframe that we are
10 asking for the July report-back with a update in June?

11 MR. HILL: That is the goal. We said we would
12 report back in June with an update to make sure that we are
13 on track to do that, but that is what we are aiming for.

14 CHAIR MENDONCA: Yeah. Okay.

15 All right. Any other comments and can you call
16 the roll?

17 MR. RAMADAN: Vice Chair Richards?

18 VICE CHAIR RICHARDS: Yes.

19 MR. RAMADAN: Director Curtin?

20 BOARD MEMBER CURTIN: Yes.

21 MR. RAMADAN: Director Camacho?

22 BOARD MEMBER CAMACHO: Yes.

23 MR. RAMADAN: Director Miller?

24 BOARD MEMBER MILLER: Yes.

25 MR. RAMADAN: Chair Mendonca?

1 CHAIR MENDONCA: Yes.

2 Okay. Thank you, the motion carries. Thank you
3 very much.

4 MR. HILL: Thank you.

5 CHAIR MENDONCA: Thank you, we'll now move on to
6 Item Three, the CEO Report, Mr. Kelly?

7 MS. ROONEY: Good morning, Chairman, Board
8 Members, I am Barbara Rooney. I'm the Deputy Director of
9 Legislation for the Authority. And I am here to assist our
10 CEO with the CEO Report today.

11 I want to commend the Board for its action today
12 to adopt the Adjusted Baseline Budget for the work
13 currently before us. It's an important step toward
14 ensuring greater Confidence in our ability to move this
15 project forward within the resources we have.

16 This is the latest of several important steps
17 the Board has taken to solve challenges and advance the
18 project. Others include setting virtually -- settling
19 rather virtually all of the outstanding lawsuits that
20 threatened to hold up progress, picking preferred
21 alternatives for the routes in Southern California to focus
22 the environmental analysis on those routes, completing the
23 financial agreement to move forward on Caltrain
24 electrification. We will be bringing you preferred
25 alternatives for the Merced to San Jose and San Jose to San

1 Francisco routes this fall. We will also bring forward an
2 MOU to advance the funding agreement with LA Metro for the
3 work at LA Union Station in late summer or early fall.

4 As the Chairman stated earlier, perseverance
5 through challenges delivers transformative infrastructure
6 projects. We are persevering.

7 On another matter, personnel, as you know we'd
8 recently announced a personnel change involving our Chief
9 Financial Officer. I anticipate additional personnel moves
10 will come as appointments are made in the new
11 Administration. I intend to use my own voice at the June
12 hearing to embarrass those who are departing and to welcome
13 those coming on board. Thank you.

14 CHAIR MENDONCA: Thank you. And we very much
15 look to hearing your voice at that. Thank you. (Applause.)

16 Okay. Mr. Richards, could we ask you to do the
17 Finance and Audit Committee Report (indiscernible) --

18 UNIDENTIFIED SPEAKER: Your mic cut out.

19 CHAIR MENDONCA: Most of the Board Members were
20 there, so you can give a brief summary, but it would be
21 helpful if (indiscernible) if they ask.

22 VICE CHAIR RICHARDS: I hope we're on. We held
23 the Finance and Audit Committee meeting earlier this
24 morning.

25 (Off mic colloquy re: audio.)

1 VICE CHAIR RICHARDS: Okay. Thank you.

2 At that meeting we went through, as we normally
3 do, the executive summaries for both the finance reports as
4 well as the operational reports. We also review on a
5 monthly basis the Central Valley Status Update, which was
6 originally prepared in February. It's updated monthly to
7 assess our progress in the Central Valley in terms of
8 construction with the eye on the completion of those items
9 required under the ARRA grant. And to be completed by the
10 end of December 2022. It's fair to say that we are looking
11 for a ramp up in activity for construction, which we are
12 told we can expect by late summer. We will be happy to
13 report that to you, especially if we can do so in a very
14 positive fashion which is our hope for that.

15 This is with, again in mind the requirement to
16 abide by all of the commitments that we have under the ARRA
17 grant, and for that matter the FY10 grant, the subject of
18 the \$929 million claw-back attempt that was discussed by
19 the Chair earlier.

20 We also took one other action that I want to
21 take the moment just to re-read what I had read as a
22 statement for those who participated and were at the F&A
23 meeting this morning, which is to some extent what we have
24 talked a bit about here. But let me say the following

1 what's regards to the reporting that has occurred since the
2 release of the Project Update Report.

3 It has been widely reported that the California
4 High-Speed Rail Authority is researching the viability of
5 interim service between Bakersfield and Merced. By some
6 reports, this decision has already been made. Board Chair
7 Lenny Mendonca -- I'm sorry, why I --

8 CHAIR MENDONCA: Just Lenny.

9 VICE CHAIR RICHARDS: It's close, Lenny, thank
10 you -- and Brian and this Board Committee of Finance and
11 Audit wish to set the record straight. The Authority's
12 Project Update Report delivered to the California
13 Legislature on May 1st described management's analysis to
14 date. The Authority Board of Directors has received one
15 informational briefing on management's consideration of
16 this interim service. It has not asked for, nor has the
17 Board given any interim service direction to
18 management. In other words, there has been no request of
19 this Board for action to this date.

20 And in part, drawing upon the work and analysis
21 completed by CEO Kelly's team to include the Authority's
22 Early Train Operator and Rail Delivery Partner, the Finance
23 and Audit Committee directed today, the Authority's
24 financial consultant KPMG, led by Thierry Prate, to prepare

1 a report on the business case for the interim service
2 between Bakersfield and Merced.

3 Additional tasks may be added to this directive
4 at the Finance and Audit's next scheduled meeting. In any
5 event, KPMG, is encouraged to employ its resources as well
6 as the Early Train Operator and Rail Delivery Partner as it
7 sees fit to prepare its independent assessment and report
8 to the Authority's Board of Directors. The business case
9 should, as a minimum, incorporate sections on context and
10 methodology, funding and affordability, legal and
11 regulatory authority, business model and commercial vision,
12 risk management and operational considerations.

13 The KPMG will be providing bi-weekly updates of
14 its progress to CEO Kelly with copies to the Finance and
15 Audit Committee. And will be providing its schedule for
16 this assignment not later than May 31st.

17 And that will conclude my report. Thank you.

18 CHAIR MENDONCA: Okay. Thank you.

19 Any comments or questions for Vice Chair
20 Richards?

21 BOARD MEMBER CAMACHO: One last one, sorry. This
22 has something to do with the construction, but if the Feds
23 continue to delay NEPA going through June of 2021, does
24 that mean that we will not be able to proceed on
25 construction in the Central Valley with our CEQA?

1 MR. FELLEENZ: So we can continue to construct
2 within the 119 miles, because we have all of that
3 environmentally cleared.

4 BOARD MEMBER CAMACHO: Okay.

5 CHAIR MENDONCA: Okay, any other comments before
6 we -- or questions before we move to closed session? I'd
7 just like to say a couple of things -- go ahead, Danny.

8 BOARD MEMBER CURTIN: Thank you, just for a
9 second. Thank you for that report, Tom. And I appreciate
10 that, because I was not at the Board meeting.

11 I just want to reiterate, and I know everybody
12 here actually is completely on board on this, but the
13 mission critical is the ARRA 119. If we fail to meet that,
14 we upend everything that we're talking about. So if we can
15 continue to focus as much as possible and not get
16 distracted as much as possible. Thank you.

17 CHAIR MENDONCA: I second that emotion.

18 So I'd just like to make a couple of remarks
19 before we go to closed session. Number one I'd like to
20 thank the Board, in particular Vice Chair Richards and
21 Finance and Audit Committee, for applying really
22 disciplined and thorough governance oversight for all of
23 what we're doing. This is hard work and it requires a
24 Board that asks hard questions and expects good answers to
25 those hard questions, so thank you. And thank you for

1 ensuring that we are getting the work done and have been
2 very transparent about the results of that work. If we
3 have questions we should ask them, that's our role.

4 And then secondly I'd also like to thank CEO
5 Kelly and their staff for ensuring that we are focusing on
6 what Director Curtin said, delivering the 119 miles right
7 in front of us while ensuring that we get all these other
8 questions answered to the discipline that we want, because
9 that's what the public requires of us.

10 So I know this is really hard work and I know
11 everyone's working overtime to get all of this done. And
12 at least for me, I really appreciate it, so thank you.

13 Okay. So with that we'll move to closed session
14 and where are we meeting?

15 UNIDENTIFIED SPEAKERS: We're on the 3rd floor.

16 VICE CHAIR RICHARDS: The third floor. There's a
17 (indiscernible).

18 CHAIR MENDONCA: Okay. We'll back, but we're
19 moving to a closed session. Thank you.

20 (Off the record at 11:12 a.m.)

21 (On the record at 11:48 a.m.)_

22 CHAIR MENDONCA: Nothing to report out of the
23 closed session, so the meeting's adjourned.

24 (The California High-Speed Rail Authority Board

25 Meeting was adjourned at 11:48 a.m.)