



DRAFT

FINANCE AND AUDIT COMMITTEE MEETING MINUTES

July 15, 2021

Webcast at:

www.hsr.ca.gov

The meeting of the California High-Speed Rail Authority (Authority) Finance and Audit Committee Meeting was called to order on July 15th at 8:30 A.M. via webinar due to Governor Newsom's State of Emergency declaration regarding the COVID-19 outbreak and in accordance with Executive Order N-25-20 and the Guidance for Gatherings issued by the California Department of Public Health. The Meeting Minutes were prepared in the order items were presented during the meeting.

Committee Members Present:

Mr. Tom Richards, Committee Chair
Mr. Ernest Camacho, Committee Member
Mr. Jim Ghielmetti, Committee Member
Ms. Nancy Miller, Committee Member

Staff Present:

Mr. Brian Annis, Chief Financial Officer
Mr. Daniel Horgan, Deputy Chief Operating Officer
Mr. Ramadan, Board Secretary

Public Comment

An opportunity for public comment was made at the outset of the meeting.

Item #1 – May Meeting Minutes

The May 20, 2021 Meeting Minutes were moved for approval by F&A Committee Member Camacho and seconded by Committee Member Ghielmetti and approved unanimously by all members.

Item #2 – F&A Committee Chairman's Remarks, Initiatives, and Updates

Committee Chair Richards had no remarks, initiatives, or updates to present.

Item #3 – Financial Reports Executive Summary

Chief Financial Officer Brian Annis presented the Financial Report Executive Summary to the F&A Committee Members.

Question:

Chair Richards asked if it is reasonable to assume that disputes are being resolved at the level invoiced to the Authority or is there a negotiation and subsequent reduction or increase in the invoice?

Response:

Mr. Annis responded that typically invoices are resolved through contractors submitting additional justification that shows the project manager that invoiced amounts were appropriate, or the contractor reduces their invoice by the disputed amounts because they agree the charges were not appropriately calculated. A large number of the current disputed invoices are related to the design-builder for CP2-3. They submitted several invoices that were based on change order work that has not been agreed to or executed. These disputes will be resolved as change orders are executed and processed.

Question:

Chair Richards asked if the Authority is not paying change orders until the work is completed and approved by the Authority?

Response:

Mr. Annis stated, that is correct.

Question:

Member Camacho asked if the Authority is accruing money to pay for the work that is being done at risk?

Response:

Mr. Annis stated that we track accrued obligations that the Authority may have as part of the year-end process.

Question:

Member Camacho asked how we account for work done at risk on a month-to-month basis?

Response:

Mr. Annis replied that the contract managers who are working with the contractors should have awareness of the activity going on in the field. They should know the status of change orders and if there is any work being done against a change order that is still in negotiation status.

Question:

Member Camacho asked Mr. Annis to confirm the Authority had nearly \$2 billion in cash as of May 2021?

Response:

Mr. Annis confirmed we had a little less than \$2 billion in cash when combining all funding sources.

Question:

Member Camacho asked if we are still expecting annual Cap and Trade auction proceeds to be around the \$500-\$700 million range?

Response:

Mr. Annis stated, that is correct.

Question:

Chair Richards asked if previously unsold credits from the Cap and Trade auctions will be fully absorbed after the next two auctions?

Response:

Mr. Annis replied, that is correct. If all allowances are sold in the next two Cap and Trade auctions, our previously unsold credits would be fully absorbed.

Question:

Chair Richards asked if the Authority will be able to utilize the Caltrans funded model for future simulations because the model will be appropriately accurate for modeling for high-speed rail ridership?

Response:

Mr. Annis replied yes. In the past we have used two different models, but this single model combines factors from both and will allow for more robust modeling that includes transfers among the different systems. The new model will also allow for updates that influence the ridership assumptions.

Question:

Member Camacho asked if the State Match to ARRA reporting includes the FY10 funds (\$929M) that were recently allocated back to the Authority?

Response:

Mr. Annis responded that we have not received money from the FY10 federal grant yet, so it is not included in the reported amounts. He also stated the agreement for FY10 funds stipulates they are to be utilized last, so he anticipates those funds to start flowing in the year 2024.

Question:

Member Camacho asked if the change order for the Arcadis contract is for contract management of the work being completed in CP2-3?

Response:

Mr. Annis responded that the Arcadis contract serves as the construction manager for CP2-3 and reviews a lot of the final design work, change orders, and things of that nature.

Question:

Member Camacho asked if the change order for the Arcadis contract was approved at the Business Oversight Committee (BOC) level and is only being reported to the Finance and Audit Committee?

Response:

Mr. Annis replied, that is correct.

Question:

Member Camacho asked why some of the change orders are exceeding the \$25 million delegation of authority to the Business Oversight Committee (BOC), but are only being reported to the Finance and Audit Committee rather than seeking approval?

Response:

Mr. Annis clarified that the Arcadis contract change order was for \$15.5 million. He advised had the change order exceeded \$25 million, the Authority would have reported it to the Committee Chair prior to execution.

Chair Richards added the concern from Member Camacho is well made and he believes we will see the results of some of his conversations with the CFO and CEO in the next month or two.

Question:

Member Ghielmetti asked who is responsible for cost overruns on the Caltrain project?

Response:

Mr. Annis advised our current funding commitment to the project is \$600 million of Prop 1A and \$113 million of Cap and Trade, so in the agreement we do not have any obligation to fund any higher costs.

Item #4 – Central Valley Update

Deputy Chief Operating Officer Daniel Horgan presented the Central Valley Status Report to the F&A Committee Members.

Question:

Member Ghielmetti asked what the plan is to speed up right-of-way acquisition?

Response:

Mr. Horgan advised that the Right-of-Way Director (Mr. Dennis Kim) has re-organized the department to split it into two functions (project management and technical expert). He is deploying an additional six to eight project managers who are focused on tracking documentation and moving things through the system as quickly as possible. He advised Mr. Kim could do a presentation on the plan in the near future.

Question:

Member Ghielmetti asked why the report does not include information that shows right-of-way impacts on construction schedule, if contractors are being held up, or if change orders are being created based on delays?

Response:

Mr. Horgan responded that these are valid points. There are some areas where the contractors have stopped work, but the contractors are being flexible and are working around the non-availability of land. We are doing everything possible to expedite the delivery of the land needed.

Question:

Member Ghielmetti asked if we can put some target dates in the report so everyone can be on the same page of what needs to be done before we cause a contractor delay?

Response:

Mr. Horgan agreed to investigate adding to the report.

Question:

Member Camacho asked how we plan to pay for CP1, which is estimated to cost \$3.6 billion?

Response:

Mr. Annis responded that as the cost of the CP's have increased over time, we have directed some of the Cap and Trade funds for that purpose, as well as the Prop 1A request with the Legislature. Those would be the primary funding sources to complete the design-build contracts.

Question:

Member Camacho asked if the \$4.2 billion requested in Prop 1A funding would be used to pay for overruns for the CP contracts,

Response:

Mr. Annis responded that the \$4.2 billion in requested Prop 1A funds would fund the completion of the CP contracts, additional right-of-way needed for the project, other project management costs associated with the CP's, and a portion would be directed towards the environmental completion.

Question:

Member Camacho asked if the design-build contracts in CP1 and CP2-3 are overbudget by more than the \$4.2 billion requested from the legislature, where will we get additional funding and how are we going to contain the costs?

Response:

Mr. Annis replied, the combination of Prop 1A and future Cap and Trade provides sufficient revenues for the revised budget (Rev. 2) included in the Business Plan.

Question:

Member Ghielmetti asked why right-of-way acquisition is so much better in CP4, as opposed to CP1 and CP2-3?

Response:

Mr. Horgan advised that CP4 is a much smaller contract (less parcels) and it was also the last contract to be awarded, so the lessons learned from CP1 and CP2-3 were incorporated into the contract.

Question:

Member Miller asked for a status update on the grant submitted for the City of Wasco?

Response:

Mr. Horgan responded that we did not receive the grant, but we applied for another grant for that work.

Mr. Annis added, that is correct. As of Monday, we applied for another grant called RAISE (Rebuilding American Infrastructure with Sustainability and Equity) for the same scope of work. We hope to be more competitive there. We also have a couple of other grants we applied for and I will highlight them in the Board Meeting.

Having no further business, the meeting was adjourned at 9:32 AM.

The Authority additionally posts on its website transcripts from F&A meetings, which detail the discussion, questions, and answers from the meeting.