



**DRAFT**

**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES  
October 19, 2017**

**Sacramento County Administration Building  
700 H Street, Hearing Room 2  
Sacramento, CA 95814**

**The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board  
met on October 19, 2017 at 8:00am**

Committee Board Members Present:

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

Authority Staff Present:

- Mr. Tom Fellenz, Interim CEO
- Mr. Russell Fong, CFO
- Mr. Jon Tapping, Acting COO
- Mr. Scott Jarvis, Chief Engineer
- Ms. Paula Rivera, Chief Auditor
- Mr. Mark McLoughlin, Director of Environmental Services
- Mr. Paul Engstrom, Third Party Manager
- Mr. Jeff Mathews, Acting Director of Real Property
- Ms. Patty Nisonger, CIO

Rail Delivery Partner Staff Present:

- Mr. Roy Hill, Chief Program Officer

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

**Agenda Item: July 18, 2017 Meeting Minutes**

- No comments.

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

- None.

**Agenda Item: Financial Reports**

Mr. Rossi welcomed everyone. Mr. Rossi started the meeting by raising the issue that some members of the public say that they cannot always hear well at these meetings. We are stuck with rooms that don't have either great acoustics or sound systems so let's all try to project like we are on a Broadway stage, but if anyone in the public feels they missed something feel free to say so and we will go over it.

Mr. Rossi stated the format for today's hour meeting is to go through section by section. Mr. Rossi started with the Executive Summary. Mr. Rossi stated as you look at it is a small amount for Accounts Payable, but I assume this has been taken care of? Mr. Fong replied yes.

Mr. Rossi moved onto the Cash Management Report. Mr. Rossi asked about the second chevron, Prop 1A funds. To the best of his knowledge we have spent no money on the bookends? Mr. Fong replied we have reserved funding for Rosecrans/Marquardt Grade. Mr. Rossi stated that is on our friends, not us, since there has been no matching. Mr. Fong replied yes. Mr. Rossi asked if the cap and trade funds were being preserved for the other programs. Mr. Fong replied correct.

Mr. Rossi moved onto the vacancy rate, on page 3. The vacancy rate seems to hang in at 16.2% and the largest number of vacancies is in the area that has the greatest delay in getting things done, Project Delivery. We will talk about that when we get there.

Mr. Rossi moved onto page 4. Mr. Rossi stated he did not understand the Year-over-Year decrease in spending for ROW mostly due to lower expenditures of ROW. Mr. Rossi stated that he understood that we have slowed down and we don't seem to be on top of it as much as we used to be when Alan Glen was here. Mr. Rossi stated he will get to that when he gets to the ROW Report, but he will have to tell you that he's not the least bit happy about that exercise. During the re-organization and Alan's exit, he did not say much about the weekly reports being late and not being analyzed. That stops as of today, but he will get to that point when we get to those reports.

Mr. Rossi moved onto page 5, Small Business Utilization Rate, and asked Mr. Fong to discuss. Mr. Fong replied that we are currently at 20.8%. Mr. Rossi asked what the thought process was, timing-wise, to get up to 30%? Mr. Fong replied that as construction increases that is usually where we get those increases. Mr. Rossi replied he understood and asked what do we assume will be that timeframe? Mr. Rossi asked if Mr. Jarvis had a thought on when would we get to 30%? Mr. Jarvis replied that will increase when we go into construction. CP 1 is very close to the 30%, but CP 2-3 and CP 4 are lagging far behind and that is what is dragging it down. Mr. Rossi replied fair enough. Mr. Fellenz added that on the design side there is lower small business participation. Mr. Rossi replied he understood and that he was trying to understand where the timing was.

Mr. Rossi moved onto Projects and Initiatives. We will get to that when we go over the Projects and Initiatives Report. Mr. Rossi stated that going from three to fourteen (red items) is not very good performance and we are going to talk about that.

Mr. Rossi moved onto the Cash Management Report. Mr. Rossi stated that he wanted to make sure that he understood this. As you are looking at the differences between expenditures and the cash balances on both panels, our spending continues to be considerably less than cash, correct? I assume we are holding that and projecting for items that come up down the road? Mr. Fong replied correct and the path had been focused on federal funds. Mr. Rossi replied ok.

Mr. Rossi moved onto the Budget and Expenditure Report, page 23. Mr. Rossi stated there are eighteen vacant positions for Program Delivery. Mr. Rossi asked who wanted to speak to him regarding getting this fixed? Mr. Hill replied that eighteen positions are open. We are reviewing every position. The re-organization is now complete and in the next few weeks we will be looking at every position that has been open. We are working with Rosemary Sidley to see what we need to do as far as positioning and moving roles. We will address those whether they are needed and use them as an alternative. Mr. Rossi expressed concern since this has been an ongoing problem for Program Delivery, and Program Delivery is an ongoing problem for the project. Mr. Rossi asked when are we going to get this fixed? Mr. Hill replied by the end of the year. Mr. Rossi asked to make a note in the

minutes that he wants a tickler for this for the end of the year to have this fixed.

Mr. Rossi moved onto the Projects and Initiatives Report. Mr. Rossi stated that as you look at the Projects and Initiatives Report there are an awful lot of red dots and the answer to all of these red dots is once we get the new cost to complete and baseline. Mr. Rossi stated that the red dots tell him that as you look at ROW and Environmental, it is clear the data that is coming to these reports has not been updated. The goals have not been updated reflecting the changes. That stops today. Mr. Rossi asked if that was clear. Everyone replied yes. Mr. Rossi stated he does not want this nonsense coming from the Authority anymore. Every month it is clear you are not going to make the targets. We need to have rational and reasonable thought processes as to what these dates really mean. Mr. Rossi stated that it is clear to him, as it was a year and a half ago, we were not going to make Environmental. We were not going to make ROW as suggested and we are going to have slippage in delivery times. We have done nothing to indicate that in these reports. This stops now. Mr. Rossi stated that from this moment on, you put the right data in here. Mr. Rossi asked if that was clear. Everyone agreed. Mr. Rossi stated that we owe it to the Board to have the right data, to the Governor to have the right data and to the citizens of the State of California to have the right data, so let's get it in here. We can't hold onto timeframes when the data put in here on a monthly basis is indicative of timeframes that will not hold.

Also, one of the problems is, besides the artificiality of holding onto dates that everyone can see will not hold if you look at the numbers, is that we can't get the data fast enough. As I look at Patty and Roy, IT is a huge hindrance to getting accurate data on time. We do not have the ability or the staff or we don't have the staff therefore the ability to do this on spreadsheets. We do not have three hundred people inputting and checking data. We have to get this system up and running now. The commitment is November 22. Mr. Rossi asked if that date was still holding? Mr. Hill stated we are moving it to November 20. There have been substantial steps forward with IT systems and we will come to you on November 20 with that achievement. Now, to be very clear with you, will that be the panacea of reporting? No. Mr. Rossi also said no, but it will be an amazing help. Mr. Hill replied exactly. Mr. Rossi asked that when it comes on November 20, is that fully-blown and tested? Mr. Hill replied that there is a relatively minor issue that we working through at the moment and we will include the status of that. We are jointly working through that.

Mr. Rossi asked if Ms. Nisonger was on board with that? Ms. Nisonger stated that at this time, the data is not yet ready for import to the system. Mr. Rossi asked if the system was going to be ready? Ms. Nisonger stated the system is ready to receive the data. Mr. Rossi asked if you are telling me that we have not kept good data files that have not been scrubbed? Ms. Nisonger replied that her understanding is the data that has been retained does not have the level of detail that is needed for future reporting and therefore import into the system. Mr. Rossi is glad the system will be running and asked how long is that going to take to get the data scrubbed and corrected? Mr. Hill replied that we have a couple of fundamental decisions to take on the level of information available and if we accept that level of information and ring fence it, and append it with other information, we can run the system knowing that inconsistency. We need to make those decisions based on how that develops over the next couple of weeks. Mr. Rossi replied ok and asked by November you will have the system up and an update on where the data is? Mr. Hill replied yes.

Mr. Rossi moved onto page two, Central Region. Mr. Rossi asked what is happening with Dragados/Flatiron? Mr. Hill replied that we are in negotiations. Mr. Rossi stated that it did not appear that anything was happening. Mr. Hill stated they have started to move some dust, which is a substantial move forward regarding availability to start work. We are in discussions with them regarding their claims and how the future plan is looking. Those discussions are on-going. There is no resolution at the moment. Mr. Rossi asked Mr. Hill if he had a timeline for a resolution or is it too

early to tell? Mr. Hill replied that he thinks it could go either way. Managing expectations it could go in either direction and we are jointly working to get the best result for everyone, because that is what is necessary to deliver this. Mr. Hill believes it is a number of weeks before a decision as opposed to months. Mr. Rossi replied ok. Director Camacho asked if that for CP 2-3? Mr. Hill replied yes and we have to have a clear directional approach the next few weeks opposed to months otherwise it will just drag on. Director Miller asked if we could have a report on that at the next meeting? Mr. Fellenz replied that we will have a report available. Mr. Rossi let Director Miller and Director Camacho know, with all due respect, that they are spectators only at this meeting otherwise they will get in trouble (Brown Act). Director Miller replied she understood. Mr. Hill added that the negotiations did need to be left confidential. Mr. Rossi stated that as you look at the rest of these, they are predicated on the completion of the new baseline and the cost to complete, so these would all be cleared up to some degree or another by November.

Mr. Rossi moved onto the Operations Report, page three. Mr. Rossi stated the problem with the Operation Report Summary, since Alan has left, is that there are no goals for the month. Mr. Rossi stated he does not know if we are making our goals. If he reads all of the underlying data it is clear that we are not. Mr. Rossi stated that he did not know what critical means. How many critical parcels need to be delivered? As we look at the 82%, 76%, 56%, 38% and 67% (of parcels acquired), he didn't know how much of that is on the critical path or not. The number by its self means very little. We need to get some analysis on this report to exactly what it means. These weekly reports are for the Board, you don't get to not do what you were asked to do, and we need the analysis.

Mr. Rossi ventured to guess that when you get back to the ROW section, looking at the deliveries he understands where we are. We have slowed down and we seem to not be on top of it as much as we were and he would like to get some comfort that we are or are going to be back on top of it to; where we were when Alan was here. Mr. Mathews replied we are on top of it. As we move through a new tranche of parcels, focused specifically on CP 2-3, we have a hundred and ten new parcels that are making their way through the appraisal phase. That will start to filter into the system. Mr. Rossi stated he understands that and wants the analysis. Is it happening at the speed it is supposed to be happening? Are we concerned by the fact that we will deliver on time in order for construction to not be delayed? Have we got the critical pathways parcels prioritized? Mr. Rossi stated that is what he is interested in and the data dump is not helpful. Mr. Hill replied that to answer your question, we will have better analysis. We will have that analysis next week. We are concerned about ROW as we are always concerned about ROW, because of the tracking and the way it is done. Some of it is out of our control. Are we on top of the parcels and hitting critical parcels now, yes, we are keeping ahead of construction. Can we do more, yes, and that is what the team is working on. For instance, getting back to CP 2-3, we are pushing for the contractor as that is part of the negotiations. We need to know what their parcels are for us to expedite those parcels ahead of construction, etc. We are analyzing that information. We are concerned and we are taking steps to address it. Mr. Rossi replied ok, good glad to hear that, but he needs the analysis.

Mr. Rossi moved onto page 4. Clearly, the Environmental Report will stay the same until Program re-baselines, but let's agree this has been incorrect for two years. Mr. Fellenz agreed. Mr. Rossi said we should have dealt with this two years ago. Mr. Rossi stated this gets back to setting goals that are inherently impossible to achieve. We can't afford to do that anymore, starting today. We just can't afford to do that anymore.

Mr. Rossi moved onto page 5, Project Development. This is an interesting list of stuff. Mr. Rossi stated he did not know which is the most important item, what the prioritization is and it has no dates. Can we address that issue in the future? Mr. Hill replied yes.

Mr. Rossi moved onto page 6, Third Party Agreements, the last chevron (the plan for agreement execution...). Mr. Rossi asked if this was just an informational item? Mr. Engstrom replied yes. Mr. Rossi suggested it was not true as we have been holding dates that don't count for two years, so we are not getting it done.

Mr. Rossi moved onto page ten, the third chevron (total number of parcels). Mr. Rossi requested to not put a lot of stuff here that we don't need.

Mr. Rossi moved onto page 12. Mr. Rossi stated as you look at pages eleven and twelve, it gets back to the issue of ROW and these dates that are pegged to the 2016 Business Plan delivery. The 2016 Business Plan is not viable and probably was to some degree obsolete the day after it was printed as all project plans are. We can't just hold to these dates like they are immovable objects. The dates will change. Most times they get longer. Sometimes they get shorter, as in the case of IT. If we are going to do reports and we hold to an artificial date, because we don't have the data or the willingness to change the date, you end up misleading people who have to read these documents and you end up with hockey stick curves that are never going to be achieved. Again, today, that stops, it just stops. Mr. Hill agreed and assured Mr. Rossi that yes, we need to have the right systems in place with change control with those dates. That does not mean to say we change dates arbitrarily. Mr. Rossi said correct, you keep the plan date, but you then project out with change control. Mr. Fellenz agreed also.

Mr. Rossi commented that when you look at page 18 and all other similar pages, it would be worthwhile projecting that out, at least a quarter so there are not a whole lot of surprises here.

Mr. Rossi moved onto page 30. Mr. Rossi had same questions. Mr. Rossi stated it is a little odd that the actual and re-baseline are so close. It is either amazing planning or he doesn't get it. Mr. Mathews replied that the re-baseline done for this was our internal analysis of what we could deliver, not based on collaboration with the design-builder. Mr. Rossi replied ok and thank you. Mr. Rossi moved onto page 35. Mr. Rossi commented same issue and same type of questions here.

Mr. Rossi moved onto page 41. Mr. Rossi commented it was an interesting document, but it does not tell him anything in respect to delivery. Some of these are more important than others. What is the prioritization? What is going to be delivered by when? Mr. Rossi would like that fixed by the next meeting.

Mr. Rossi moved onto page 45. Mr. Rossi stated as you look at four through twelve, these dates have been moved finally. The real question is, are they realistic now? Mr. McLoughlin replied that they are not. Mr. Rossi stated then let's get them fixed. Mr. Rossi asked who is in charge of ROW? Mr. Mathews replied he is. Mr. Rossi asked Mr. McLoughlin what his role is? Mr. McLoughlin replied he is in charge of Environmental. Mr. Rossi commented to Mr. Mathews that for ROW, you know what you need to do to get this going. Mr. McLoughlin given the note, I assume that these are going to be changed for the next session? Mr. Fellenz replied yes. Mr. Rossi asked if those dates will be aligned with our friends at FRA? Mr. Fellenz replied yes, they will. We have been having discussions with them about that and we are getting aligned with them. Mr. Rossi asked Mr. Hill if these will all be translated back into the baseline, time delivery schedules. Mr. Hill replied yes. Mr. Rossi asked so when we get the 2018 Business Plan, we will have this stuff cleaned up? Mr. Fellenz replied correct.

Mr. Rossi moved onto page 57. Mr. Rossi asked for clarification on the four-month look ahead. What are the delivery dates? What does that mean? Mr. McLoughlin replied we will prioritize those as well. Mr. Rossi stated same on the next page.

Mr. Rossi moved onto page 66. Mr. Rossi stated we have a potential problem, don't we Mr. Tapping? Mr. Tapping replied indeed. Mr. Rossi stated that he had a couple of questions on this. First is, we clearly got to this place because of change of scope and some other items. Also we did not plan as well as we should have for this segment. Having said that, as you are doing the baseline, you have to pick this up, right? Mr. Tapping replied absolutely and it is included. Mr. Rossi added that as you look at the other segments with contingencies, there is one at 15.3%. The others are 22%, 15.1%, 15.2% and 15.3%, which is CP 4. Why is that lower than the rest? He did not remember a reason for that. Mr. Tapping replied that when we did the risk analysis, we set up the contingency for CP 4. Mr. Rossi asked why are we treating them differently? Mr. Tapping replied that each one has a different type of risk profile associated with them and we have mitigated some of the earlier challenges with ROW, third party agreements. Mr. Rossi commented he understood and asked if that dropped contingency? Mr. Tapping replied yes. Mr. Hill replied he supports Mr. Tapping at this stage of the program and said the range of contingency is anywhere from five percent to forty percent on individual items. Mr. Rossi stated that when you do your Monte Carlo risk-based analysis, he would like to see the math. Mr. Tapping agreed.

Mr. Rossi commented to Mr. Fellenz that he has heard occasionally that the Authority has an \$11B unallocated contingency that we can just use. We are not talking about that anymore are we? Mr. Fellenz replied no, we are not. Mr. Rossi asked if people understand that is not acceptable? Mr. Fellenz replied they do and we are not saying that, because it does not exist. Mr. Rossi commented that even if the cash existed, you would not use it to fix the problems in the early stages, because you still have a second phase to build, correct? Mr. Fellenz replied correct. Mr. Rossi wants to make sure the culture is clear. Let's understand how you use contingency and the differences between budgets and cash flow. Mr. Hill replied that is why we have the BOC. Mr. Rossi replied perfect, thank you.

Mr. Rossi moved onto page 68 and 74, highlighting same issues. Mr. Rossi moved onto page 78, SR-99. Mr. Rossi asked for more information on the 8.2% contingency. Mr. Tapping stated for that particular project, it is a CM at risk contract, a different type of contract, a design-build contract, so they brought on an early contractor involvement to develop the design. The design is at one hundred percent complete, so the contingencies were set. Mr. Rossi said perfect, thank you.

Mr. Rossi moved onto page 93. Mr. Rossi asked if this is just an issue of contingencies, which you are reviewing for November, which will be redone with the re-baseline? Mr. Tapping replied yes.

Mr. Rossi moved onto Audits. Mr. Rossi commented to Ms. Rivera that there is an audit you are doing that I have concerns about. Mr. Rivera replied yes. Mr. Rossi stated he would like a full read out of that whenever possible. Mr. Rossi said he would follow up with Mr. Rivera after the meeting, since he is not comfortable with stuff he sees on that. Mr. Rivera replied ok. Mr. Rossi replied thank you.

Mr. Rossi moved onto the CP 1 Monthly Status Highlight Report, page 1. Mr. Rossi asked Mr. Jarvis what the minus \$8M in the contingency status box means? Mr. Jarvis said he would have to follow up on. Mr. Rossi said Scott, if I'm going to read the reports, you should too. Mr. Jarvis replied yes.

Mr. Rossi moved onto CP 1 Performance Metrics, page 3. Mr. Rossi was not sure why this was the case with CP 1. He thought we certainly should be in the yellow by now. Mr. Jarvis replied this pertains to the original contingency amount less the amount used. Mr. Rossi said he understood.

Mr. Richards asked if in trying to get a better sense for tracking performance in the various contracts, when we talk about what is the major schedule of activities, we use terms like completed or planned. Can we put a date on terms of planned? It is not only on the planned, but also on the completed date

for a better sense of tracking performance and looking at whether or not we are staying on schedule.

Mr. Rossi moved onto CP 2-3 Performance Metrics, page 4. Mr. Rossi asked what does it mean when it says the reason is environmental sustainability reporting? Mr. Jarvis replied this has to do with non-conformance reports that are issued. If there is reporting on environmental sustainability and it does not meet the requirements of the contract, then the contract receives the non-compliance report. Mr. Rossi asked if this was talking about the reports that were submitted were any good? Mr. Jarvis stated yes, it is showing that for some of the reports there is no resolution yet, if there are environmental mitigation challenge that occurs. Mr. Rossi asked if Mr. McLoughlin works on this? Mr. McLoughlin replied yes, he works on some pieces of it, when asked, to weigh in on for the region. Most of it would be like Scott said. There is non-compliance or they are not doing it as required by the contract or they are not reporting. Mr. Rossi replied ok. Mr. Jarvis added that until they follow up and show resolution on it, it stays in the red on the non-resolved/ non-compliance report. Mr. Rossi replied alright.

Mr. Richards had a question on CP 1, page 3. Mr. Richards asked under the litigation improvements, what steps are we taking in ROW delivery? What does that mean? What are we doing? Mr. Jarvis replied that it primarily focuses on the critical parcels and working with the contractor to determine what those critical parcels are. Mr. Richards asked if it was different then what you have been doing in the past or a continuation of the same? Mr. Jarvis replied that it is a continuation of the same, just an improvement of the overall system that we have in place to stay ahead of the contractor for construction. Mr. Richards replied alright.

Mr. Rossi moved back to page 9. Mr. Rossi stated this gets back to the fact that we have not ramped up enough to get to the 30%. Mr. Jarvis replied that is correct. Mr. Rossi replied ok.

Mr. Rossi commented that he wants to make sure that we are clear here about a couple of points. Clearly, we have gone through some changes at the Authority, at very senior levels, so that results in delays in getting things up to speed of where we would like them, but we are done with that. Let's get the reports back to where they should be. Let's get the data and the analysis so that people can read and understand that data.

A whole lot of where we are today is predicated on the fact that we have not been very good at adjusting, not changing or re-programming the plan, Mr. Hill, but adjusting past delivery. Here is where it should have been, here is where it should be, could be mitigated and here is how it looks today. The 2016 Business Plan again is not engraved in granite. If we think we can run a project that way, we surely are going to fail. We need to be honest about what is happening all the time so as of today, that particular thought process of holding people's feet to the fire for a plan that was obsolete the day it was printed. Anyone who has built this type of project or any large project, even ones not as complicated as this, know that those budgets change, plans change, times changes, and here we are.

We are not going to do that anymore. We just have to be brutally honest on where we stand on every one of these issues. Every day it becomes less difficult though once we get the IT stuff settled. He did not want you to go away with the thought process that there is no good works here. There are a lot of good works here. We just have to get back on track and move away from this artificiality of holding onto dates, because someone thinks it is the best way to manage a project. We need to be brutally honest about what is happening here every day. Mr. Rossi asked if that was clear. Everyone agreed. Mr. Rossi asked is there anything else you want to talk about? Hearing no other issues, Mr. Rossi thanked everyone for coming.

**There were no further discussions and meeting adjourned at 8:37 a.m.**