



California High-Speed Rail **BRIEFING: October 15, 2020 Board Meeting Agenda Item #2**

TO: Chairman Richards and Board Members
FROM: Brian Annis, Chief Financial Officer
DATE: October 15, 2020
RE: Consider Awarding the Contract for Financial Advisory Services

Summary

Staff recommends that the Board authorize the Chief Executive Officer (CEO) or Designee of the CEO to execute a Financial Advisory Services contract with KPMG LLP (KPMG) in an amount not-to-exceed \$26,800,375 for a term of four years. The Agreement period is expected to commence upon Department of General Services approval.

Background

The California High-Speed Rail Authority (Authority) is responsible for planning, designing, building, and operation of the first high-speed rail system in the nation, linking California's major population centers. Historically, a Financial Advisor has been an integral advisor to the Authority, dating back to 2009 with subsequent contract executions in 2011 (no board action needed at those times), 2014, and 2016. The Financial Advisor has supported commercial and financial decision making in the past and will be critical for making decisions in the future.

Prior Board Action

In August 2014, the Board approved Resolution 14-22 to execute contract HSR14-01 for Financial Advisor services with KPMG LLP. HSR14-01 contract term was from August 2014 through June 2017 for a total amount of \$11.2 million.

In June 2016, the Board approved the award of the current contracts HSR15-92 #1 to KPMG LLC (Primary) and HSR15-92 #2 to Ernst and Young Infrastructure Advisors, LLC (Secondary) to provide Financial Advisor services to the Authority. These contracts were awarded through a competitive bid process and included a combined budget of \$40 million over a four-year period. The scope of the HSR15-92 contracts included services such as: perform financial assessments and analysis of the project or segments of the project, assess existing financial plans and develop future funding plans for the project or segments of the project, identify and analyze potential funding and financing sources for the project or segments of the project, analyze and evaluate cash flow models, and provide financial procurement assistance during the various Program phases. In addition, the financial advisor has been utilized to assist with contract management policy development, financial systems scoping, and business case development for potential future operations.

In addition, and under the delegation of authority from the Board to the Chief Executive Officer, the Authority and KPMG executed an amendment to HSR15-92#1 to provide six (6) additional months of services—extending the contract to December 2020—and \$3.5 million in additional funding to continue the current Financial Advisor services as necessary to support the Track and Systems procurement and assist the Authority with its 2020 Business Plan.

In June 2015, the Board approved Resolution 15-11, which allowed the Authority to execute the Rail Delivery Partner (RDP) contract. The RDP contract HSR14-66 included task orders for some Commercial Services as well as for Economics that will be transitioned to the contract requested herein. From 2015/2016 until February 2020, the cumulative expenditures for the RDP Commercial Services and Economics was \$8 million.

At the June 25, 2020 Board Meeting, Authority staff, in adherence with the policies of the Board, asked for and received the Board's approval to procure the services of a Financial Advisor through a Request for Proposals (RFP). The RFP was for a four-year contract with a not-to-exceed total bid cost of \$36 million.

Discussion

Specialized Financial Advisor services are necessary at the Authority because this Rail Program includes certain complex financial issues where the required expertise is generally not available from civil service, and for project work that is temporary or occasional. These services include advice and review of large procurements to minimize fiscal risk to the state, consulting and analysis of funding approaches included in Business Plans and Funding Plans, and occasional reviews of accounting systems and reports for accuracy of reporting to the Board and the federal government. The Authority has relied on its Financial Advisor to provide time sensitive, industry specific, and high-speed rail experience-based information in order to help the Authority make informed commercial and financial decisions. Additionally, the Authority has prepared specialized economic analysis on the impacts of the Rail Program for the economy. Recently, the Authority Board directed the development of special studies and analysis, such as the Central Valley Business Case, which the current Financial Advisor completed in early 2020.

This contract will continue the historical Financial Advisor services for the Authority, but also create financial management efficiencies by combining resources from three separate contracts into one. Currently, the RDP contract and the two Financial Advisor contracts provide support resources to the Financial Office. By combining relevant services from these three contracts, the Authority streamlines its contract management responsibilities and creates efficiencies for the Program. Additionally, the Legislature approved the Administration's Form-to-Function budget proposal to shift certain consultant work to new state staff – this change will transition certain work currently performed by the Financial Advisor to state staff.

Due to the efficiencies described above and competitive bids received, the annual budget for the new contract will be significantly reduced from historical expenditures. The average annual expenditure from prior contracts, adjusted for inflation, was about \$12.5 million, while the annual budget with the new contract is expected to be approximately \$6.7 million.

Staff is proposing to make the contract award to the most responsible bidder with the highest combined weighted technical, small business participation, and cost scores among qualifying proposals. The proposed contract contains a 30-day notice termination clause and requires compliance with the Authority's Small and Disadvantaged Business Enterprise Program and the applicable thirty percent (30%) participation goal for Small Businesses, inclusive of Disadvantaged Business Enterprises and Microbusinesses. In addition, this is an hourly rate plus other direct charge reimbursement contract with a ceiling (not-to-exceed) on the total contract amount.

This contract will be managed by task orders and include services such as:

- **High-Speed Rail Commercial, Planning and Procurement Advisory Services**
 - Provide strategic commercial support and advice to the Authority
 - Analyze and evaluate delivery methods for the Project
 - Provide commercial support during major procurements (i.e. Track and Systems and Rail Cars)
- **Financing and Funding Advisory Services**
 - Perform funding scenarios and fund source analyses
 - Assist with Business Plan and Project Update reports
 - Assist with funding plans including Proposition 1A “part c” and “part d” plans
 - Analyze potential financing sources and structuring plans, including alternative and innovative financing mechanisms
- **Business and Economics Advisory Services**
 - Prepare Economic Impact Analysis Report
 - Prepare Fiscal Impact Analysis Report, and ad hoc reporting
- **Project Financial Advisory Services**
 - Provide expertise and project management advisory services for the Authority’s Financial Office
- **Contract Compliance Management**
 - Contract compliance management, including small business tracking and reporting requirements

RFP Process

The procurement process for the Financial Advisor Services contract was managed directly by Authority staff consistent with the State’s competitive procurement process as defined by Public Contract Code section 10344 et seq. and the Authority’s policies for RFPs. The Authority received two bids by the extended RFP deadline of August 12, 2020. In the first stage, the Authority’s Contracts and Procurement Branch staff reviewed the proposals for compliance with the RFP’s mandatory format and minimum requirements. Per the RFP requirements, both proposals were compliant and moved to the second stage of review. In the second stage, the Evaluation Committee met, interviewed the proposers and evaluated and scored the eligible proposals based on the criteria of the RFP.

Maximum Points Allowed

Total Score for the Proposal and the Interview	Maximum Score
Technical Score (60%)	300
Cost Score (30%)	150
Interview Score (10%)	50
SB Participation: Preference/Incentive Score (additional points)*	39
COMBINED PROPOSAL SCORE	539

*The Authority established a 30% Small Business (SB) utilization goal and a 3% Disabled Veteran Business Enterprise (DVBE) mandatory requirement, as reflected in Section 5.3.9 of the RFP. The maximum 5% preference for SB proposer or non-SB proposers providing for 30% certified SB participation was applied, and the maximum incentive amount of 3% for DVBE Participation was applied in accordance with Attachment C of the RFP.

The proposers were then ranked based on the combination of four scores: Technical Score, Cost Score, Interview Score and SB Participation.

Summary of Scores:

Score Section	Proposers	
	KPMG	E&Y
Technical Score	293	269
Cost Score	139	150
Interview Score	48	42
SB Program Reference/Incentive Total	39	39
TOTALS	519	500

Legal Approval

This RFP was conducted with the assistance of and under review of the Authority Legal Office.

Budget and Fiscal Impact

The total value of this contract is \$26,800,375. Funding for this contract was included in the 2019 Program Baseline. Below is the fiscal impacts to the current year budget and the Total Program Budget.

REVIEWER INFORMATION	SIGNATURE
Reviewer Name and Title: Brian Annis Chief Financial Officer	Signature verifying budget analysis: Original Signed October 7, 2020
Reviewer Name and Title: Alicia Fowler Chief Legal Counsel	Signature verifying legal analysis: Original Signed October 7, 2020

2020-21 Fiscal Year Budget

Contract Name	Contract Number	Current FY Contract Budget	Budget Change	Funding Source
Financial Advisor	FUT1101-11000-1	\$0	-\$4,480,000	State
New Financial Advisor	HSR19-41	\$0	+\$4,480,000	State
Total			\$0	

Total Program Budget

Contract Name	Contract Number/Budget Allocation	Current Total Program Contract Budget	Budget Change	Funding Source
Financial Advisor	FUT1101-11000-1		-\$26,800,375	State
New Financial Advisor	HSR19-41		+\$26,800,375	State
Total			\$0	

Recommendations

It is the recommendation of Authority staff that the Board approve this contract to KPMG LLP in an amount not-to-exceed \$26,800,375 for a term of four years.