



DRAFT

FINANCE AND AUDIT COMMITTEE MEETING MINUTES

January 21, 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 January 21st 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 Kelly, Chief Executive Officer
Mr. Brian Annis, Chief Financial Officer
Mr. Joseph Hedges, Chief Operating Officer
Ms. Paula Rivera, Chief Audit Officer

Public Comment

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

Item #1 – December Meeting Minutes

The December 10, 2020 Meeting Minutes were moved for approval by F&A Committee Member Camacho and seconded by Committee Member Miller and approved unanimously by all members.

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

Committee Chair Richards advised today's Board Meeting start time has been changed to 12:30 p.m. due to closed session for the board.

Item #3 – Audit Report - ARRA Grant Match (July 2017 – December 2019)

Chief Audit Officer Paula Rivera presented an Audit Report on ARRA Grant Match (July 2017 – December 2019) to the F&A Committee Members. No questions were asked by the Committee Members.

Chief Financial Officer Brian Annis added that one recommendation from the audit has been fully implemented, and the remaining recommendation will be fully implemented no later than June 30, 2021.

Item #4 – 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 Mr. Annis could provide details on the disputes with the CP 2-3 Design Builder?

Response:

Mr. Annis replied that the disputes are related to proposed change orders that have not been fully implemented so we could not pay them. The change orders are in the process of scope review and approval, so the issues are being worked through with the contractor.

Question:

Chair Richards asked if these types of disputes have occurred before?

Response:

Mr. Annis replied that he is not aware of a specific instance that we have been billed in advance of having a change order in place, but he thinks the team catching it is a good sign that the invoices are being thoroughly reviewed.

Question:

Member Ghielmetti asked when Mr. Annis thinks he will have some results on resolving the disputes. Is it a 60-day process?

Response:

Mr. Annis replied that our team is actively working on the disputes, but he does not have an anticipated date of resolution. Generally speaking, we try to resolve larger disputes within a couple of months; however, smaller disputes or disputes with state agencies can sometimes linger for a year or more.

Question:

Chair Richards asked if the dollar amount of the CP 2-3 Design Builder dispute matched the work that was done?

Response:

Mr. Annis responded that he can't speak to that specifically. The reason for the non-payment was that the work was tied to a change order claim that had not been fully approved. When approved, it could be for a different amount than the original submission.

Question:

Chair Richards stated that year-to-date expenditures are substantially lower this year when compared to last year. Do you know what the reason for that is?

Response:

Mr. Annis replied that there are two primary reasons for the difference. The first is that we are spending below our anticipated level, in terms of our fiscal year budget. The second is that we had some larger one-time payments last year that are contributing to the difference.

Question:

Chair Richards asked where we are with third-party work (PG&E and AT&T)? Is the work being done by the Authority or are the utility companies doing the work and we are paying them for it?

Response:

Chief Operating Officer Joe Hedges replied that the work is done through the design-build contracts but each of the third-party utility companies have direct oversight of the work being done. Designs are approved and work is subcontracted by third-party preferred vendors.

Item #5 – Central Valley Update

Chief Operating Officer Joe Hedges presented the Central Valley Status Report to the F&A Committee Members.

Question:

Chair Richards asked if the difference between the two cumulative contract amounts shown on the Remaining Expenditures to Achieve ARRA graph (page 12) were due to the rough estimate for track and systems?

Response:

Mr. Hedges replied approximately. There is some additional work we have estimated that will need to be awarded in the construction packages. We are aware of it all. We have a plan to negotiate it and get it under the contract.

Question:

Member Miller asked when we are underperforming our monthly estimates on expenditures, do we adjust future months?

Response:

Mr. Hedges replied no, we do not adjust them. The projections are based on what we expected to achieve in the new Revised Baseline Schedules (RBS's).

Question:

Chair Richards requested that next month Mr. Hedges distinguish the number of completed structures and guideway from the number that are under construction. He would also like to have total number needed to comply with ARRA.

Response:

Mr. Hedges replied absolutely. He will put it in a chart.

Question:

Member Miller asked if structures and guideway projects account for all construction in the corridor? Does it include utility relocations?

Response:

Mr. Hedges responded that it accounts for all awarded construction and everything we have in the 119-mile segment for the central valley right now. Utility relocations are included since we do not consider a site open until the utilities are cleared.

Question:

Member Miller asked in terms of right-of-way, does the guideway include parcels that have not yet been acquired?

Response:

Mr. Hedges replied that if we don't have the right-of-way and can't start construction, we would not account for it in the actual guideway numbers.

Question:

Member Camacho asked if the Committee could get an updated forecast, with cost and schedule to complete, for each of the construction packages?

Response:

Mr. Hedges advised that the Central Valley Status Report already includes that in each of the construction package summary pages.

Question:

Member Camacho asked if the Committee can get the high and low range of the forecast? How have unresolved changes and claims been factored into the forecast? Is the current backlog of changes and claims growing, diminishing, or steady in terms of numbers?

Response:

Mr. Hedges stated that he tracks all these items and can share the information with the Committee.

Chief Executive Officer Brian Kelly added that some of the information that we are going to be updating within the Business Plan will include some adjustments to those numbers, so I want to make sure you are aware that its coming.

Member Camacho stated that he can get some of the information from Mr. Hedges offline, so he understands it better. Mr. Hedges agreed to set up a meeting.

Question:

Member Ghielmetti stated that he is nervous about falling behind on the right-of-way delivery. Is there a plan to speed up delivery?

Response:

Mr. Hedges replied that we are tracking every one of these right-of-way parcels. There is motion on all of them. They are either in negotiations, closing escrow or in the condemnation process which is beyond our control. We track each one through the condemnation process to ensure if there is anything needed from us we provide it timely, but the court systems have slowed down due to COVID-19. Mr. Hedges advised he would call Member Ghielmetti to get ideas and suggestions. Member Miller requested that she be included in the conversation as well.

Question:

Chair Richards asked why the letter agreement with PG&E wasn't extended?

Response:

Mr. Hedges responded that if we need to extend the agreement, he thinks PG&E would be open to it.

Mr. Kelly added that when they began looking into the land conveyance issue at the end of 2019 there was no agreement with PG&E on how to move forward. The team put in place an important agreement that allowed us to move forward 300 plus land conveyance that are necessary to move utilities and advance construction. Similarly, the team is utilizing other tactics and strategies on right-of-way. For example, they are working closely with the design builder to look at design alternatives that would reduce the right-of-way parcel count. We are seeing the reductions reported each month. My expectation is that next month the right-of-way delivery numbers will be higher than they've been for a long time. My point is that there are tactics and strategies being used on these issues to advance construction and they are working.

Question:

Member Ghielmetti asked if most of the Third Party delays are due to COVID-19?

Response:

Mr. Hedges replied no. There are long history legacy issues with these Third Parties. We have used complex negotiations to address their concerns. The biggest issue is respecting that irrigation districts have a mission to do and ensuring that their mission remains uninterrupted while we build our railroad crossing.

Question:

Member Ghielmetti asked if the estimated completion dates for Third Party Agreements should be changed from December 2020?

Response:

Mr. Hedges replied that the dates are based on November reporting.

Question:

Member Miller asked Mr. Kelly if there is any legislation that would help with right-of-way acquisition for a state project?

Response:

Mr. Kelly replied yes. We were successful in 2019 in having statewide approvals expedited to move forward on parcels. We are now utilizing that in our right-of-way area.

Question:

Member Miller asked if Mr. Kelly is worried about the pace of acquisition?

Response:

Mr. Kelly advised that he is worried about the pace of acquisition, but he is more worried about the increase in parcels needed. Now that the designs are done and we know what is needed, we have to get through

this as quickly as we can. I think we are bringing all we can think to bring to it and I think you will see the parcels counts acquired go up in the months ahead. We have better tracking, better maps, and we have more strategy on it than ever before.

Mr. Hedges added that the last 500 parcels needed are the hard ones. All of the easy and low hanging fruit parcels have already been taken. These are the most complex of the parcels that remain.

Having no further business, the meeting was adjourned at 9:53 AM.

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