



# CALIFORNIA High-Speed Rail Authority

## California High-Speed Rail Authority Board meeting minutes

July 15, 2021

Webcast

<http://www.hsr.ca.gov/>

The meeting of the California High-Speed Rail Authority (Authority) Board convened on July 15, 2021, 11:00 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 Minutes were prepared in the order items were presented during the meeting.

Members Present:

- Mr. Tom Richards, Chair
- Ms. Nancy Miller, Vice-Chair
- Mr. Ernest Camacho
- Mr. Henry Perea
- Ms. Lynn Schenk
- Ms. Martha Escutia
- Mr. James Ghielmetti
- Mr. Andre Boutros
- Mr. Anthony Williams

Members Absent:

- The Honorable Dr. Joaquin Arambula, Ex Officio Member

### **Public Comment**

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

Agenda Item #1 – Consider Approving the May 20, 2021, Board Meeting Minutes

The May 20, 2021, meeting minutes were moved for approval by Director Camacho, seconded by Director Richards and approved (9-0).

Director Camacho asked that the meeting minutes reflect questions asked by Board members.

### **Agenda Item #2 - 2021-2022 Budget Update**

Chief Financial Officer for the Authority, Brian Annis, provided an update on the 2021-2022 Budget to the Board. The following questions were asked by Board members and answered by Mr. Annis and Mr. Horgan.

### **Question**

Director Camacho: If the Legislature has reserved the \$4.2 billion that is being requested, what is the impact on our contracts if they don't approve it and some of that \$4.2 billion going to be used to pay the existing CP1,

2, and 3 contracts?

Response

Mr. Annis responded that under our projections, we do need access to the new Prop 1A funding, to be able to pay our bills in the latter half of the fiscal year. If we don't get the budget appropriation, we would have to look at slowing some of our expenditures, so we match our expenditures to the inflow of future Cap and Trade, which is funding that is available to us. But again, with Prop 1A, we do require a legislative appropriation to be able to access those remaining voter-approved bond funds.

Question

Director Schenk: Can you please refresh the Board and members of the public on the responsibility of the Legislature. What policy constraints could they impose, if any?

Response

Alicia Fowler responded that the best approach would be to put something together for the Board and send it out.

Question

Director Perea: Can you go into a little bit more detail on the reasoning behind the Legislature deferring action on that item and when they will take action?

Response

Mr. Annis responded that there has been ongoing discussion on different approaches, different technologies for train sets, and so forth. The Governor had proposed a broader package of transportation investments, including a billion dollars that might facilitate transit improvements in time for the L.A. Olympics. There were also some statewide transit investments, in total about 3.3 billion of additional projects. I know that's an ongoing discussion as well, how those new dollars might best be spent. This was one of those pieces of the budget that was deferred. There are others as well in other areas of the budget, but clearly there is a lot of ongoing discussion among the Governor's Office, Finance, and the Legislature on the appropriation as well as, again, the other new funding proposed as part of a transportation package.

Question

Director Perea: Comparing the 2020 to the 2021 that you just discussed, in 2021 terms of the RFP we have out right now for the tracking systems, does the 2021 budget reflect the dual track system or single track?

Response

Mr. Annis responded that It would reflect the single track So that would be a component of the \$16.9 million, but it would be the assumed budget for the track and systems contract.

Question

Director Boutros: If we're extending time nearly five years from original contract dates on at least one of them. There is four years on another and three years on the others. All that time extension translates to dollars in the long run, so how are those days and time extensions really figured into the overall cost of the project and whether you have put together an estimate of costs related to any design changes as the design is being completed on some of these contracts and whether those will increase the costs beyond what's projected here and what is being allotted. Because I think the budget is going to be higher than what you're showing here if some of these issues are not resolved. We still have a lot of right-of-way to acquire and some of the right-of-way, looking at the charts from the Finance and Budget Committee reports, are not really being acquired till later in 2023, where construction is expected to be completed by the end of 2023. So what happens if you have delays on those as well, and are those being costed out in terms of risk and are those risks

costs included in the overall contract cost to deliver to substantial?

Response

Mr. Annis informed Director Boutros that these questions would be answered in the next few slides of the Board presentation.

Question

Director Boutros: I understand there may be some change orders that haven't been agreed to, some disputes that may have to be resolved over time, but at least based on the new design we would know what the cost to complete is going to be or at least cost at completion. Is there an opportunity to do that and come in with a new budget estimate to completion so we know whether we have enough resources to do all the work that you're proposing in your project update?

Response

Mr. Horgan responded that we are working our way through significant change orders, probably seven or eight. Two of them Brian will be talking about later that we have executed. Four of those were delivered within the budget that we had. We have almost agreed costs for two or three more; they're within the original agreed budget. We are progressively working through these change orders, closing them out. Some of the negotiations do take a significant amount of time. It's not like a one-day session. Two that we're bringing to the Board today, they took six months to complete. But we have a good grip on the scope, and we are working way through these. Similarly, on CP2-3, we are working at site level, at sort of senior manager level, and executive level with Brian Kelly and Brian Annis as well. We are working our way through these significant change orders, but it does take time. We would love to do it immediately, but it does take effort and resources. And you know, there's a lot of negotiating.

Question

Director Camacho: Mr. Horgan, the pending change orders that you are continuing to negotiate. Is that already included into this \$3.6 billion or are we going to see another number which is going to reflect something closer to \$4 billion for that?

Response

Mr. Horgan responded that they are included in the \$ 3.6 billion.

Question

Director Camacho: If the number that was provided for a single track, is about \$700 million. What is it going to cost us if we go for a dual track?

Response

Mr. Annis replied that he believes the \$700 million you are referring to is a number from the Business Plan that was the additional cost of the second track itself. We do have a number in the funding plan that's associated with all of the components of the track and systems work, the contract and some work outside the contract from utilities management, etc., is about \$2.3 billion that's included for that single track. Then later adding the second track, I believe is maybe the \$700 million figure you're thinking of.

Question

Director Escutia: Would it be possible get a sense of the change orders and what they are for?

Response

Chair Richards informed the Board that both him and Brian will be happy to develop something subsequent to this meeting, they will put together something that Brian can present to the Board that will satisfy hopefully,

most if not all of the questions that have been raised today.

#### Question

Director Boutros: On the Finance and Audit Report, year-to-date expenditures, or the percentage of budget expended year to date is 35 percent. This is as of May 21st. So, you're only at 35 percent of your budgeted amount, and I understand there is still six plus months to go. So, if you're not really spending at the level of budgeted amounts, how does that impact your fiscal year 2021 and 2020 or 2021-2022? And do you really need the \$1.9 billion in 1A funds?

#### Response

Mr. Annis stated that in government budgeting in general for capital outlay we budget conservatively. We have a plan for delivering right-of-way, finishing utilities, procuring any change orders through negotiation on cost, and getting the work done on the ground. We base the budget on the schedule for doing. Many of these elements may have delays along the way for some structures. We may have a right-of-way that has to go to eminent domain. Utilities may take longer than we have anticipated in working with the utilities on schedule. We have other issues related to freight railroad access, blackout periods, so there are a lot of issues in there. But as far as budgeting, we're budgeting based on the planned progression in the field. And that's conservative in the sense that we want to ensure that we have enough funding. We're also a bit conservative on the revenue side on Cap and Trade and tend to plan for the lower side of the revenue range. At the end of the day, this is a forecast and, the actuals will always vary somewhat from the forecast, but in terms of the approach on how we build the budget, I believe this is standard for how capital projects would operate. Again, you're looking at our planned timeline, planned expenditures, and ensuring you do have enough funding to accomplish that.

#### Question

Director Boutros: Are your planned expenditures now based on the new construction completion dates or are they still based on the original construction completion dates amended?

#### Response

Mr. Annis said No, they are based on the updated dates, as Daniel mentioned, December 2023 for CP1 and 2-3, and April 2022 for CP4.

#### Question

Director Camacho: What if the Legislature appropriates a portion of the Prop 1A Funds, how much is that going to impact us going forward? We have two major procurements that may be coming out, the track and systems contract as well as the RDP contract, will that slow the contracts down? the track and systems contract as well as the RDB 1 contract, will that slow those down as well?

#### Response

Brian Annis: A lesser amount of Prop 1A could get us through on a cash flow basis for the budget year, but as far as advancing the enterprise in terms of new contracts, that's difficult to commit to new work when there's this uncertainty of future revenue. Our projections have never indicated that we would fully expend \$ 4.2 billion of bond funds in the fiscal year. This is money, though, that is needed to finish the 119 miles for the current scope. It would be spent really over a couple years; about two years we think. And it's really the standard for capital projects.

When the Legislature appropriated in 2012 for the project phases that were included in that 2012 appropriation, they of course didn't appropriate just the one year of cash flow need, they funded the anticipated level of capital cost at that time for that infrastructure. So, this is the standard approach that I think you see for whether it was the new Bay Bridge in the Bay Area, whether it's office buildings, you know

that the request is almost always that the appropriation is for the whole cost of the specific infrastructure project, not just the next fiscal year of cash flow need.

#### Question

Director Perea: Do we have any feel or indication of what the fed may be helping with?

#### Response

Mr. Annis replied that in terms of funding, of course we did receive the restored FY10 grant. Those are additional cash resources that are sequenced toward the end of our Central Valley work, so that's more likely to cover the track and systems portion of the cost. There are almost some updates daily on the federal government's work on the infrastructure package. The House's, the Senate's, the bipartisan group, all have a very large increase for rail funding. So, again, we remain optimistic that there are restored federal investment in high-speed rail.

#### Question

Director Camacho: Have we received any indication of what impact the Speaker's communications to Washington with respect to electrification and other issues, you know, what impact that had in terms of mixed signaling and impact on funding?

#### Response

Mr. Annis stated that in the Governor's broad transportation package he proposed in the May revision, both High-Speed Rail funding and also the broader funding for transit systems across the state and other investments, that we thought had really a dual benefit. So, it's not only to advance these projects with state money but being that fully necessary matching funds to, in some cases, match with local funds for local transit to get those federal dollars flowing. And I think the delivery of federal commitment is certainly important to continue to meet federal commitments, to be a good funding partner, in general that strengthens us for future federal grants. So, again, we do very fortunately have a much restored, better relationship with the federal government.

#### **Agenda Item #3 – CEO Report**

Chief Financial Officer for the Authority, Mr. Annis, provided a report on the California High-Speed Rail Project Updates. Questions were asked by the Board and answered by Mr. Matalka.

#### Question

Director Schenk: Can you go back to the Enterprise Risk Management presentation and elaborate a little on the cyber security risk element and how it is incorporated in what we're doing with Ernst and Young?

#### Response

Mr. Matalka stated that when Ernst and Young joins HSR, part of the enterprise resources that they are bringing onboard will help us in figuring out how to get to the next level of cyber security awareness for risks that are coming about.

#### **Agenda Item #6– Finance and Audit Committee Report**

Finance & Audit Committee Chairman Tom Richards provided a brief status report on the Committee's work.

#### **Meeting Adjourned**

Chair Richards announced at 12:39 p.m. that the Board would adjourn.