



DRAFT

FINANCE AND AUDIT COMMITTEE MEETING MINUTES

September 23, 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 September 23rd 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
Ms. Paula Rivera, Chief Auditor
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 – August Meeting Minutes

The August 18, 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 commented that he would like Chief Financial Officer Brian Annis to provide month-by-month expenditures for design-build work and Construction Package spending.

Item #3 – FY2020-21 Internal Quality Assurance and FY2021-22 Internal Audit Plan

Chief Auditor Paula Rivera presented the FY2020-21 Internal Quality Assurance and FY2021-22 Internal Audit Plan to the F&A Committee Members.

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 the additional 73 state positions included in the budget bill, SB 170, were requested by the Authority or if the request was determined by others outside of the Authority?

Response:

Mr. Annis responded that is correct. During last fall's budget development process, we submitted a proposal to the Department of Finance and worked with them to refine it. Those positions were included in the Governor's January budget and the May revision of that budget.

Question:

Chair Richards asked if the Prop 1A Bond Fund cash balance was \$125.0 million?

Response:

Mr. Annis replied yes.

Question:

Chair Richards asked if there is any financial exposure to the Authority and the state in the absence of additional Prop 1A funding, considering our current contract value is \$8.4B. If we do not receive additional funding, will there be a discharge of any obligations we have under the value of the contracts at this time?

Response:

Mr. Annis replied that the Governor requested additional Prop 1A authority from the Legislature in the spring, but the request has been deferred until next January. Over multiple years, we would depend on an additional Prop 1A appropriation to supplement our Cap-and-Trade revenues so we can continue the existing contracts and fund the upcoming contracts, such as track and systems. In the full Board Meeting, I will be going over our fiscal year plan and what that supports in more detail, but currently we have sufficient funds to continue all the existing contract work for the fiscal year. We will talk more about our prioritization in terms of making sure we preserve cash in the fiscal year for existing contracts and how we are going to defer, as a budget matter, expenditures of some of the new contracts. We can adjust or revisit that in the spring depending on our cash situation. However, over multiple years we do require the additional Prop 1A funding that was allocated to the project through the voters, and if we are unable to get that next calendar year, we would have to curtail activity to make sure that contractors adjust their work so that we will be able to pay any build work. If at any time we foresee we are not going to have money in the future to pay for the invoices, we would take action to direct contracts to slow or stop work so we would maintain cash needed to pay any valid invoices.

Question:

Member Camacho asked when would we run out of money if we did not receive the Prop 1A appropriation from the Legislature?

Response:

Mr. Annis responded that we are reducing our fiscal year budget from the planned level reported in July. We indicated a \$3.2 billion budget and we are reducing that in the proposal to a \$2.3 billion budget. That is a \$900 million-dollar reduction. We have also moved out any expenditures on the major new contracts until

July 2022, so we think this will get us through the fiscal year. We should end the year with about a \$300 million Cap-and-Trade cash reserve, absent a new Prop 1A appropriation.

Question:

Member Camacho asked at the rate we are spending money currently, how would we have spent \$4.2 billion if we received it from the Legislature?

Response:

Mr. Annis responded that last year there was \$1.2 billion in capital expenditures and the year before was about \$1.5 billion, so we have been spending at a rate between \$100 to \$120 million a month on capital. However, we do expect that to increase significantly as addition work sites are opened and newer contracts are implemented such as track and systems. It would be a little shy of doubling our expenditure rate to get to the \$2.3 billion expenditure in the fiscal year.

Question:

Member Camacho asked if we have Cap-and-Trade money coming in and we put the track and systems contract on hold, would that cover us for this next fiscal year and the year there after?

Response:

Mr. Annis responded he does not believe that is the case. The premise you are articulating is if our expenditures remain at about a \$100 million, but again with new contracts being initiated with some ramp up which is additional major projects and work sites are implemented we would expect to see that rate of monthly expenditure go up.

Question:

Member Camacho asked if we are unable to issue new contracts without having the budget for it?

Response:

Mr. Annis responded yes. There are two issues, the appropriation authority and the cash to be to able to pay the projects. We have both issues to look at here. Our cash is more and more constrained, and as we get into the next fiscal year, we have deferred the execution of some of these new contracts until we have more certainty on our Prop 1A funding.

Question:

Member Camacho asked if the next two procurements we have are the track and systems and the RDP?

Response:

Mr. Kelly responded yes. We also have advance design work for both Merced and Bakersfield. Mr. Annis will indicate to the Board later that we would push back expenditures until the next budget year and we also have design work on the four stations in the Central Valley. So, all of these are part of things we have in front of us that we will have to slow if we do not get clarity on the budget picture.

Question:

Chair Richards asked where construction needs to be in order to achieve the aspirational goal of 30% small business utilization rate?

Response:

Mr. Annis responded that we can certainly look into that and report it in the next meeting.

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 Camacho asked if we have designed or accounted for the cost of the substations used to power the overhead catenary systems from the utilities? Are those costs that we still must factor into our total budget and final design?

Response:

Mr. Horgan responded that his understanding is that we have already priced the substations and the cost is included in the new baseline budget (Rev. 2).

Question:

Member Camacho asked how we could include the cost if we do not know how many substations we are going to need yet?

Response:

Mr. Horgan responded we do know the number of substations. There was a simulation done by our Rail Operations team and they have done an estimate of the budget. It is a high-level estimate and is not based on detailed designs.

Mr. Annis added that we have a track and systems budget that is broader than just the contract budget for the bidders. It includes the notice to proceed for track and systems of the 119 miles, as well as the electrical connections that would be necessary for that particular segment.

Question:

Member Camacho asked if much of the work that will be done with utilities are done by utility contractors as opposed to our contractors?

Response:

Mr. Annis responded he believes that is correct.

Mr. Kelly confirmed.

Having no further business, the meeting was adjourned at 9:27 AM.

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