

DRAFT

FINANCE AND AUDIT COMMITTEE MEETING MINUTES

February 17, 2022

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 February 17th 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
Ms. Nancy Miller, Vice Committee Chair
Mr. Ernest Camacho, Committee Member
Mr. Jim Ghielmetti, Committee Member

Staff Present:

Mr. Brian Kelly, Chief Executive Officer
Mr. Brian Annis, Chief Financial Officer
Mr. Daniel Horgan, Deputy Chief Operating Officer
Mr. Moamen Ramadan, Board Secretary

Public Comment

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

Item #1 – December Meeting Minutes

The January 19, 2022 Meeting Minutes were moved for approval by F&A Committee Member Ghielmetti 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 had no remarks, initiatives, or updates to present.

Item #3 – 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 buyers who are stockpiling cap-and-trade credits for future use will have any impact on the demand for credits going forward?

Response:

Mr. Annis responded that recent registration information suggests there may be investors or other entities entering the cap-and-trade market to purchase allowances for future resale. He also advised that the Legislative Analyst Office (LAO) completed an analysis that suggested the market was likely to stay robust for some time. As a base case, they forecasted the total option revenue could be in the neighborhood of \$4 billion for the 2022-23 fiscal year. He believes the current market expectation is that we will see higher allowance settlement prices and higher overall revenue for some time to come.

Question:

Member Camacho asked if the \$50.2 million increase in disputes is for the reporting month or if it is a cumulative increase?

Response:

Mr. Annis responded that the \$50.2 million is a month-over-month increase to disputes.

Question:

Member Camacho stated that these disputes appear to be related to change orders and asked if we know the cumulative amount of pending change orders? If not, is that something we can get for the Committee next month?

Response:

Mr. Annis responded yes. The increase is primarily due to change order disputes with Dragados/Flatiron. There are various claims that the contractor feels are ready for payment from work performed at risk or different compensation for work performed through change orders. These disputes do not include changes in scope from design and other work that will be done in the future. So, the current disputes are based on work the contractor believes they've already incurred costs for. We will investigate the total amount of pending change orders and follow up with you.

Question:

Member Ghielmetti commented that we are halfway through the fiscal year but have only spent 22.7% of the budget. Do we plan on making up the difference?

Response:

Mr. Annis replied that our forecast indicates that we plan to accelerate but he does not think we will make up the difference completely. The new forecast is about a \$600 million reduction from the original budget, which is displayed at the bottom of the chart. I believe we'll see an uptick where the second half of the fiscal year will show higher expenditures than the first half.

Chair Richards added that this has been consistent over the years, where we have expenditures falling behind the original forecast and budget.

Question:

Member Ghielmetti asked if the shortfall in expenditures is an indication of budgeting incorrectly?

Response:

Mr. Annis responded that he thinks there is a natural conservatism in the budgeting. We ask our contract managers to provide an amount they think they might need, but sometimes there are delays in implementing a new structure for construction, third-party issues, and other issues you hear about in the

construction updates. We want our budget to be realistic, but at the high-end of realistic to make sure we have enough resources to pay our invoices.

Mr. Kelly added that it is also reflective of the fact that we're working through preconstruction issues that are holdovers from a long time ago in the field, and that delays our ability to move more quickly on construction. That is why we have a keen focus on getting right-of-way done, getting the utilities relocated, so we can get into full construction mode, and that's where we are progressing now.

Item #4 – Central Valley Update

Deputy Chief Operating Officer Daniel Horgan presented the Central Valley Status Report to the F&A Committee Members.

Question:

Mr. Ghielmetti asked if the utility relocations that have not been started are going to hold up the contractors?

Response:

Mr. Horgan replied that we are focusing a lot of attention on this area. We are planning to relocate over 200 utilities in the Fresno urban area. There is also a third-party taskforce focusing on how we can expedite the relocation of third-parties. Some significant challenges exist here with the utility companies and railroad and irrigation districts, but we are putting a huge amount of effort and focus in this area. On the present schedules, we shouldn't see any delays.

Question:

Member Camacho asked what we have done between December and February to mitigate problems with the utility relocations?

Response:

Mr. Horgan responded that we've set up a third-party taskforce. Any time we have a holdup with getting a third-party approval or a utility company, we have an escalation ladder. So, if we need to, we're escalating things up to Director level, and then to Brian Kelly to intervene with PG&E or AT&T to expediate approvals.

Question:

Member Miller asked if right-of-way in the urban area is a significant issue?

Response:

Mr. Horgan responded yes, absolutely. It's the quantity of the utilities to be relocated in urban areas.

Question:

Member Miller asked if there is an issue with where to relocate the utilities?

Response:

Mr. Horgan replied that sometimes it is, but most of the time it's just the sheer quantity and getting the agreements with the utility companies. And sometimes you need a tripartite agreement if you're working close to a railroad, as well.

Question:

Member Ghielmetti asked if we have added any more manpower to the utility relocations and the parcels that we need from the railroads, since those are the ones that seem to be lagging behind?

Response:

Mr. Kelly responded that we have a specific team that works with the railroads under the Rail Operations and Delivery leadership. That person is assigned to the issues with the freight railroads in the corridor, specifically on CP 1.

I'm making sure the teams are tracking what they need on the third-party agreements monthly, that the communication is happening to our liaison with the Union Pacific, and that we are minimizing what I would call chronological or subsequent reviews and, instead, doing more concurrent over-the-shoulder reviews so that we can expedite the elements of what everybody needs and we're getting decisions made in a more timely way and so that's what we're working to put into place.

We're evaluating manpower all the time. And we have -- we are assigning and bulking up the Oversight Team in all of the CPs right now.

Question:

Chair Richards asked if Mr. Horgan could incorporate a look ahead for construction performance metrics contained in the Central Valley Status Report for next month? He advised the Committee should have more up to date information on records related to guideway miles, structures, right-of-way, and similar metrics.

Response:

Mr. Horgan agreed to the request.

Having no further business, the meeting was adjourned at 9:23 AM.

The Authority additionally posts on its website a link to a recording of the F&A meeting, which detail the discussion, questions, and answers from the meeting.