

**DRAFT**

**FINANCE AND AUDIT COMMITTEE MEETING MINUTES**

**September 9, 2020**

**Webcast at:**

[www.hsr.ca.gov](http://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 9<sup>th</sup> 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  
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

**Public Comment**

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

**Item #1 – August Meeting Minutes**

The August 13, 2020 Meeting Minutes were moved for approval by F&A Committee Member Ernest Camacho and seconded by Committee Member Nancy Miller and approved unanimously.

**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 there is an obligation repay commercial paper by the Authority.

Response:

Mr. Annis responded yes; it is similar to a general obligation bond. The commercial paper provides short term cash flexibility and the Treasurer would then include the amount borrowed in a future bond issuance. This gives the Authority some risk reduction with the ability to access cash through commercial paper month-to-month, as needed.

Question:

Chair Richards asked if the AB398 adjustment is based on a percentage of total proceeds or if it is always \$20M and what is it used for.

Response:

Mr. Annis replied that the Assembly Bill from 2017 was the bill that extended the auction program from 2020 to 2030. It was an agreement in the legislature that included the elimination of a rural fire fee that would be backfilled with Cap and Trade funding. It is typically in the \$60-\$70M range, so a quarter of that would reduce our HSR funding. The second part of the package was a manufacture sales tax credit that is about \$80M a year, so the Authority's share is about \$20M of that.

Question:

Member Miller asked if Cap and Trade allowances are not sold at a certain auction, are they just rolled into the next? Would that be true for the May auction that was low?

Response:

Mr. Annis replied yes, that is correct. There is a mechanism that allows unsold credits to become available to be resold once we have an auction where 100% of the credits fully sell. We did not have a fully sold auction in August, so we will need 100% of the credits to sell in November for some of the unsold allowances can come back in the February auction. Our best guess is that the unsold May credits would be offered for sale sometime in 2021.

Question:

Chair Richards asked if there was currently a plan for what we will do with excess property and when will it occur. Also, will the proceeds from the excess property sales go into the Rail Property Management Fund?

Response:

Chief Executive Officer Kelly replied that our Planning and Sustainability Director and ROW Manager are working closely on developing a broad master plan for all parcels. The plan includes the identification of parcels needed for the strict alignment of the track, as well as parcels that may be necessary for things like energy storage issues, station development issues, and other parcels the Authority will need. The Authority will also be identifying parcels that are not needed so they can go through a dispossession process. That will involve some sale back or sale to other identities and the ability for those revenues to move into the appropriate account for us.

Mr. Annis stated that the proceeds from the sale of the excess properties will go into this Rail Property Management Fund.

Chief Executive Officer Kelly added that part of the broader review in preparation for the next Business Plan is a thorough review of various revenue scenarios with risk applied. There will be more to come on this as we complete all the risk work and develop the funding scenarios.

Chair Richards stated that this would make a good future agenda item for Finance and Audit Committee and possibly the Board. Early next year would be appropriate so it does not take away from any time and effort needed for the Business Plan that will come out on December 15th. Mr. Kelly replied he would be happy to work with Chair Richards on scheduling.

Question:

Member Miller stated that we are estimating to spend quite a bit this year, particularly with right-of-way (ROW) acquisitions. Will we be able to spend that?

Response:

Chief Operating Officer Joe Hedges replied that we are hitting the deliverable numbers right now. Jennifer Lowden (Director of Real Property) and the right-of-way team have been able to sustain what is needed to keep the Revised Baseline Schedules (RBS's) on track.

Question:

Chair Richards asked if including in-process amounts for ARRA State Match would bring us to 87 percent of our match requirement?

Response:

Mr. Annis replied yes, and some of that in-process at the end of July has been submitted.

Question:

Chair Richards asked Mr. Kelly what the process is for approving the larger change orders that exceed \$25M? Are they being funded through the Board approved contingency?

Response:

Mr. Kelly replied that change orders above the \$25M threshold go through an internal process that involves our Business Oversight Committee (BOC) and Executive Committee for review and approval. There is usually a notification from me, or we report it to the F&A Committee and then routed to the Board. Mr. Kelly also confirmed that large change orders are being funded through the Board approved contingency.

Question:

Member Camacho asked if the delay impacts are generally funded through the contingency.

Response:

Mr. Annis replied correct. After the May 2019 budget was adopted, including the contingency, each of the construction packages had a Time Impact Payment made.

Question:

Member Camacho asked how we budget for Time Impact Payments if they have not been brought to us yet? A newspaper reported that CP 1 potentially had a \$400M delay claim coming to the Authority. Is that going to be funded out of the contingency?

Response:

Mr. Annis replied that he believes the number sighted in the newspaper was a sum of various change orders. Those change orders will be reviewed and there are often adjustments before the final payment.

Mr. Kelly added that when we adopted the \$15.6B baseline budget in May 2019, there was an identification of known and unknown items to be addressed. In developing the budget, revenues were set aside to accommodate those items we knew were coming. As we progress the work, those items are brought forward with the appropriate change order and executed. The change orders sited in the newspaper were presented to the Board and made public months ago. They are available on our website for the public to access. These are things we budgeted for through contingency. We also have been quite transparent on when we address these, how we address them, and making them available to the public for broader review.

Question:

Chair Richards asked if the requirement for the Intrusion Barriers is a regulation?

Response:

Mr. Kelly replied that it was a requirement that came through the Federal Railroad Administration (FRA) and the freight railroads on how to establish appropriate safety for trains traveling at the speeds we are proposing. The Intrusion Protection Barrier came out of an initial discussion and agreement through the FRA, Rail Safety Group, freight folks, and High-Speed Rail back in 2014. We will go through this in broader detail at the Board Meeting.

Question:

Member Miller asked for clarification on the DB and total lines on the Preliminary Numbers for Next Month slide.

Response:

Mr. Annis replied that the total includes right-of-way, third-party payments, and project management costs. Mr. Kelly added that DB is construction costs only.

**Item #4 – Central Valley Update**

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

No questions were asked regarding the Central Valley Status Report.

Question:

Chair Richards asked that the new Preliminary Numbers for Next Month slide be sent to Board Members.

Response:

Mr. Annis replied yes and that it would also be posted to the website for the public to see.

Having no further business, the meeting was adjourned at 9:38 AM.

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