



MINUTES

**Finance Committee Meeting
Mission Memorial Annex Conference Room
550 South King Street, Honolulu, Hawaii
Thursday, November 8, 2012, 8:00 A.M.**

PRESENT:

Don Horner	Carrie Okinaga
Keslie Hui	Ivan Lui-Kwan
Robert "Bobby" Bunda	Glenn Okimoto
Wayne Yoshioka	

**ALSO IN ATTENDANCE:
(Sign-In Sheet and Staff)**

Dan Grabauskas	Breene Harimoto
Diane Arakaki	Bill Brennan
Phyllis Kurio	John Burns
Jeanne Mariani-Belding	Duane Sayers
Gary Takeuchi	Russell Honma
Andrea Tantoco	Joyce Oliveira
	Cindy Matsushita

I. Call to Order by Chair

Finance Committee Chair Don Horner called the meeting to order at 8:04 a.m.

II. Public Testimony on All Agenda Items

Councilmember Breene Harimoto provided testimony expressing his confidence in the rail project. He thanked the Board and Executive Director and CEO Dan Grabauskas for their leadership.

Board member Wayne Yoshioka thanked Councilmember Harimoto for his continued support of the project as Chair of the City Council's Transportation Committee. Board member Ivan Lui-Kwan echoed Mr. Yoshioka's gratitude toward the councilmember,

saying his support was vital to the success of the project. Mr. Horner also thanked Councilmember Harimoto, and stated that the real work on the project begins now. He said that he looked forward to working with the four recently elected councilmembers and the new mayor, who has expressed his desire to further the project.

III. Approval of October 4, 2012 Finance Committee Minutes

Mr. Horner called for approval of the October 4, 2012 Finance Committee minutes. There being no objections, the minutes were unanimously approved.

IV. FY2014 Operating and Capital Budgets

Mr. Grabauskas introduced HART CFO Diane Arakaki and Planner Phyllis Kurio, who would be presenting the FY2014 Operating and Capital Budgets, copies of which are attached hereto as Attachment A.

Ms. Arakaki stated that the Operating Budget for FY2014 is level funded. The number of full-time equivalent positions will remain the same as the current fiscal year at 139. Overall the Operating Budget for FY2014 will be \$152,000 less than the current year, reflecting HART's efforts to operate in a fiscally prudent manner.

Mr. Lui-Kwan asked about the \$500,000 increase in Legal Services. Ms. Arakaki replied that the increase is due to the anticipated rise in costs to respond to lawsuits. Mr. Grabauskas stated that the monies were budgeted for the anticipated resolution of the state and federal cases, but that it is unknown how much legal fees in the coming fiscal year will be. He said that briefs were being prepared for the November 30, 2012 filing in the federal case, and that by the hearing on December 12, 2012, he would have more clarity on the direction of that case. However, he said that he thought it prudent to include additional funds as a precaution.

Board member Carrie Okinaga asked if the legal fees appropriation in the current budget of \$1.2 million is sufficient for legal fees. Deputy Corporation Counsel Gary Takeuchi advised that all of it would be needed during the current fiscal year. Ms. Okinaga asked if the appropriation amount for next fiscal year was Corporation Counsel's recommendation, and Mr. Takeuchi replied that Corporation Counsel does not object to it.

Ms. Arakaki said that there are savings in other areas to offset unforeseen legal costs in the current budget. Mr. Horner pointed out that HART did not expend all the legal fees appropriated last fiscal year.

Board member Keslie Hui asked why Debt Service and Issuance item decreased. Ms. Arakaki said that line item should read zero. She also clarified that the Other Fixed Charges line item should reflect a decrease from \$1,000,000 to \$500,000, which represents a cost reduction on stipends for unsuccessful bidders.

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Mr. Horner asked if the decrease in the amount for current year debt service was because HART is deferring the assumption on debt drawdown. Mr. Grabauskas stated it had been previously unclear if the costs of issuing debt would be included in the Operating Budget, or included in the overall cost of the bonds. However, he said that HART staff clarified that debt service issuance costs would be rolled into the instrument itself, instead of being funded separately. Mr. Horner asked if the issuance costs would be capitalized and if, given the construction delay, debt service is therefore pushed out because capital costs are also delayed. Ms. Kurio said that the FFGA Financial Plan assumed debt issuance in FY2014, but that debt service would not be incurred until FY2015.

Mr. Horner said more budget details are needed. He asked for clarification of the Personnel line item, and stated that 139 full-time equivalent positions will be too many once construction concludes and the train is in operation. He asked whether the approximately \$9,000,000 included consultants. Mr. Grabauskas stated that he would provide Mr. Horner with a breakdown of the consultant personnel costs. He agreed that in seven years, HART would not need that many employees, but that HART is currently in the design, engineering and construction phase.

Mr. Horner stressed the need to build a permanent staff to provide stability now and have staff that are vested in the project and will do it right. He asked how many of the 139 employees are permanent staff, noting that they should be less expensive than the consultant employees. He said that, when in operations, HART should be a manager of managers. Mr. Grabauskas assured him that he is being judicious with permanent positions within HART staff.

Mr. Hui suggested that the Human Resources Committee take up the discussion of long-term staffing levels. Mr. Horner agreed, and said that the pay grades and scales of the permanent staff would be in alignment with the City and County of Honolulu guidelines. Mr. Grabauskas stated that HART has worked with the City and County Human Resources Department to create new positions. Mr. Horner pointed out that the City also operates a bus service with similar positions that are within the City pay structure, which is less than the consultants' pay structures.

Mr. Hui asked Ms. Arakaki to explain why the \$13,000,000 in personnel expenses are uncapitalized, and what drives the decision to decide whether an expense is capitalized vs. uncapitalized. Ms. Arakaki replied that that decision is a judgment call, but that she would not recommend capitalizing staffing costs. Mr. Horner agreed that the decision is a judgment call, and said that the important thing is to have transparency when evaluating both budgets.

Board member Robert "Bobby" Bunda asked the name of the carrier for the Equipment & General Liability and the Directors & Officers Liability Insurance. He thought that the \$9,000 premium increase could be negotiated with the insurance carrier. Ms. Arakaki stated that she would find out and advise Mr. Bunda.

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Mr. Horner reiterated the referral of the long-term staffing plan discussion to the Human Resources Committee. Ms. Arakaki said she would discuss the staffing plan with Mr. Hui. Mr. Grabauskas stated that HART has already begun converting consultants to HART employees, and stated that HART has a goal of converting 20 to 30% of consultant InfraConsult staff to HART staff. He said that InfraConsult's goal is to decrease its presence at HART. Mr. Horner stated that he was very impressed with the quality of InfraConsult staff, who HART could not have afforded to hire directly. Ms. Arakaki said there is a staffing plan that is reported on to the FTA each month, includes transition from InfraConsult staff to HART staff, and can be provided.

Mr. Hui requested to see year to date figures, as actual performance measures would be helpful. He said that he wanted to ensure transparency, as the Operating and Capital Budgets are tied together. Mr. Hui said he also wants to see a plan on the contingency drawdown going forward. Ms. Arakaki stated she would do so.

Mr. Bunda asked Ms. Arakaki to explain if the budgeted funds go into a savings account in the event they are not spent. Mr. Grabauskas indicated that if HART doesn't spend it, the money is still in the Transit Fund to use for other things. Mr. Bunda requested the accumulated unspent amount. Mr. Yoshioka clarified that the appropriation lapses after the fiscal year is over, but the funds go back into the account that can only be used for rail.

Ms. Kurio stated that the budget is always based on estimated revenues and authorizes expenditure. Surpluses go into a cash account, which HART can seek appropriation against. She said that the FY2012 cash balance was \$418,000,000, against which there were payables and contract reservations, leaving an estimated cash balance for FY2013 of \$295,000,000. Mr. Bunda asked where the balance information could be found. Ms. Kurio said the auditor's financial statement would contain that information. Mr. Horner stated that the cash balance could be found in the Monthly Progress Report and on the Fact Sheet on a monthly basis.

Mr. Bunda asked whether the amount is audited. Mr. Arakaki said that HART's financials are audited by independent auditor PKF Pacific Hawaii LLP, who would be reporting to the Audit/Legal Matters Committee the following week. Mr. Grabauskas stated that an audit report would be made to the Audit/Legal Matters Committee, then the Board.

Ms. Arakaki stated the Capital Budget is for FY2013 to 2014, beginning on July 1, 2013. Mr. Horner requested that the committee approve the FY2014 budgets for consideration by the Board. He said that the project had approved contracts in place with Kiewit and Ansaldo, but no new notices to proceed for the FY2014 funding could be issued until the Board approves the budget and appropriates funds.

Ms. Arakaki stated that the Capital Budget reflects major expenditure increases due to the compression of the construction schedule for the Archaeological Inventory Survey construction pause. She said that the budget includes assumptions for the construction pause and the repackaging and combining of contracts. She said that although there are

significant increases, there are also significant reductions. She provided a brief overview of the major budgeted items.

Regarding the Inspection section, Mr. Bunda asked what needs to be inspected. Mr. Grabauskas gave the example that HART is required to have inspections for compliance with Buy America requirements. Mr. Bunda questioned whether \$56,000,000 worth of inspections was needed, and Mr. Yoshioka stated that the amount is understandable given the amount of construction involved in the rail project. Mr. Yoshioka also noted that the amount included construction management costs.

Mr. Hui stated that the documentation provided does not make clear the scope of what is included in each line item. For example, he asked what is included in the Ansaldo line item for Equipment – Railcars/Core Systems. Ms. Arakaki stated that she could provide that information. Mr. Horner stated that the budget reflects the same amount as the contract that was signed 18 months ago for the “brains of the trains.” Mr. Hui asked about the scope of the work authorized in the construction sections. Mr. Grabauskas suggested more detailed presentations on the significant budget categories to answer members’ questions.

Mr. Horner suggested a proviso for the budget process that the Board receive confirmation of Ansaldo’s financial capacity. He pointed out that Ansaldo’s parent company’s credit rating was downgraded two weeks ago, although it is still investment grade. He requested that the Ansaldo STS CEO appear before the Board. Mr. Bunda agreed, in light of the news that morning about a possible recession in Europe. Mr. Horner said that he would also like to add a proviso to the budget approval process to include the Full Funding Grant Agreement (FFGA) being in place.

Mr. Lui-Kwan asked how much would be spent going into the carryover, and whether the construction delay was factored into the \$247,000,000 Construction line item. Mr. Grabauskas replied that the committee would be authorizing capital monies to be obligated in the coming fiscal year, but that there are sometimes prior obligations from previous fiscal years. Some of the money won’t be spent until future years, but the authorization is needed in FY 2014. He said that Ms. Kurio could provide cash flow and actual expenditure information.

Ms. Kurio stated that HART staff performed a capital improvement budget bottoms-up cost estimate for the FFGA. The basis for the budget is the bottoms-up cost estimate.

Mr. Yoshioka stated that he would be leaving to attend another meeting, but requested that the agenda item for the Joint Meeting of the Finance and Project Oversight Committees on the Joint Traffic Management Center (JTMC), scheduled for after the Finance Committee meeting, be deferred so that other JTMC stakeholders could participate.

Mr. Grabauskas stated that the capital budget takes the construction delay into consideration. He said that the committee is authorizing the budget, which would be

shared with the City Council and the Mayor for their input. Mr. Bunda asked if notices to proceed require Board approval, and Mr. Horner said that is the responsibility of staff.

Board member Glenn Okimoto asked whether there was backup documentation for the budgets, and Ms. Arakaki replied that there were, and the staff was trying to find the right balance for how much information to present to the Board. Mr. Grabauskas said that more detailed information would be provided. Mr. Hui agreed that the members need to better understand the budgets, as this is the Board's only financial decision point.

Mr. Horner and Ms. Okinaga agreed, and requested a budget presentation at the Board meeting the following week.

V. Six-year Capital Program

Ms. Arakaki introduced the Six-Year Capital Program, and stated that the projections were inclusive of the AIS work and construction delay.

Mr. Horner asked Mr. Takeuchi to provide some background on the recent federal court ruling. Mr. Takeuchi said that he would be happy to provide the information, but that the item was not included on the agenda for this particular meeting.

Public Hearing

Mr. Takeuchi noted that the agenda called for a public hearing on the Operating and Capital Budgets. Mr. Horner called the public hearing to order at 9:19 a.m., and invited the public to comment on the budgets.

Russell Honma provided testimony on his recent trip to Tokyo, in which he met with the International Monetary Fund. He stated that General Electric is contemplating purchasing Ansaldo, as did Bombardier.

Mr. Horner asked whether the Bombardier appeal had been resolved. Mr. Takeuchi advised that the court had issued its ruling. The plaintiffs could seek further judicial review, but no such request had been filed yet.

Mr. Honma added that Sumitomo or Mitsubishi were also prospective buyers for Ansaldo.

There was no other public testimony, and the public hearing was concluded at 9:18.

Mr. Horner called for a motion to approve the Operating and Capital Budgets for consideration by the full Board before transmittal to the Mayor and City Council, with the provisos that before final action on the budgets by the Board, it receives assurances on Ansaldo's financial capacity, and that the FFGA is received. Ms. Okinaga so moved, and Mr. Hui seconded. The motion passed unanimously.

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VI. Executive Session

There was no need for executive session.

VII. Adjournment

There being no further business before the committee, Mr. Horner adjourned the meeting at 9:22 a.m.

Respectfully Submitted,


Cindy Matsushita
Board Administrator

Approved:


Don Horner
Chair, Finance Committee

DEC - 6 2012
Date

ATTACHMENT A

**HONOLULU AUTHORITY FOR RAPID TRANSPORTATION
PROPOSED OPERATING EXPENSE BUDGET
FOR FISCAL YEAR 2014**

Expense Category	FY2013 Budget	FY2014 Budget
<u>Personnel</u>		
Regular Pay	\$ 9,001,089	\$ 9,052,649
Overtime, Night Shift, Temp Assign Pay, Stand-by Pay	\$ 53,000	\$ 70,480
Accumulated Lump Sum Vacation Pay	\$ -	\$ 14,000
Fringe Benefits (ERS, FICA, EUTF, Unemp, & Workers Comp)	\$ 3,916,793	\$ 3,892,237
Service Or Merit Awards	\$ 800	\$ 1,000
Personnel Expense Subtotal	\$ 12,971,682	\$ 13,030,366
<u>Current Expenses</u>		
Office & Computer Supplies	\$ 128,000	147,000
Meals and Food	\$ 2,700	2,300
Safety & Miscellaneous Supplies	\$ 5,900	9,300
Parts/Equip (Comm, Furn, Comp, A/V)	\$ 230,700	210,000
Legal Services	\$ 1,202,354	1,702,354
Professional Services - Direct Reimbursement & CASE	\$ 2,079,869	1,982,031
Professional Services - Other (Audit, Accounting Svcs, Safety, Peer)	\$ 364,400	280,000
Postage & Shipping	\$ 6,000	9,000
Telephone	\$ 21,600	32,000
Communication Services (Web Hosting & Webex Video Teleconf)	\$ 164,580	170,000
Relocation - New hires	\$ 30,000	30,000
Travel Expense - Out-Of-State (Staff & Board)	\$ 82,475	82,475
Advertising, Publication Of Notices, & Photo Services	\$ 10,100	14,474
Insurance on Equipment & General Liability	\$ 8,000	12,000
Liability Insurance (Directors & Officers)	\$ 53,000	62,000
Printing and Binding	\$ 1,500	1,500
Other Repairs to Buildings and Structures	\$ 300,000	300,000
Repairs/Maintenance - Office Furniture & Equipment	\$ 2,800	5,000
Rentals (Office Equip, Office Space, Land, Other)	\$ 2,299,704	2,230,959
Fees (Memberships, Registration & Parking)	\$ 48,180	50,000
Computer Software Maint. Agreements	\$ 39,649	48,500
Other Fixed Charges (Stipend)	\$ 1,000,000	500,000
Debt Service & Issuance		
Current Expenses Subtotal	\$ 8,081,511	7,880,893
<u>Equipment & Software</u>	\$ 16,000	\$ 6,000
TOTAL	\$ 21,069,193	\$ 20,917,259
Total Full-time Equivalent Positions	139	139

Honolulu Authority for Rapid Transportation
FY 2014 CIP REQUEST AND SIX-YEAR CAPITAL PROGRAM (FYs 2014 - 2019)

Phase	Appropriated 2012	Appropriated 2013	2014	2015	2016	2017	2018	2019	Total 6 Years
LAND	\$ 63,546,105	\$ 34,651,200	\$ 85,947,400	\$ 34,758,700	\$ -	\$ -	\$ -	\$ -	\$ 155,357,300
PLAN	\$ 6,906,800	\$ 8,054,800	\$ 2,695,000	\$ 621,900	\$ 522,600	\$ 50,000	\$ 50,000	\$ 50,000	\$ 11,994,300
DGN	\$ 117,093,904	\$ 113,395,890	\$ 68,416,500	\$ 17,980,400	\$ 4,220,000	\$ 20,000	\$ 20,000	\$ -	\$ 204,052,790
CONST	\$ 135,177,953	\$ 225,981,770	\$ 373,880,800	\$ 768,609,900	\$ 298,003,900	\$ 21,431,700	\$ 841,700	\$ 108,300	\$ 1,688,749,770
INSP	\$ 19,101,000	\$ 50,647,920	\$ 56,743,400	\$ 26,101,800	\$ 1,099,400	\$ -	\$ -	\$ -	\$ 134,592,520
EQUIP	\$ 10,558,000	\$ 55,556,510	\$ 425,907,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,463,510
RELOC	\$ 2,352,518	\$ 3,296,870	\$ 1,377,400	\$ 3,458,700	\$ 226,400	\$ 151,000	\$ -	\$ -	\$ 8,510,370
RECERT	\$ -	\$ -	\$ 100,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000,000
CONTING	\$ -	\$ -	\$ 225,470,800	\$ 100,000,000	\$ 103,000,000	\$ 79,000,000	\$ 72,000,000	\$ 28,000,000	\$ 607,470,800
TOTAL	\$ 354,736,280	\$ 491,584,960	\$ 1,340,438,300	\$ 951,531,400	\$ 407,072,300	\$ 100,652,700	\$ 72,911,700	\$ 28,158,300	\$ 3,392,191,360

**HONOLULU AUTHORITY FOR RAPID TRANSPORTATION
PROPOSED CAPITAL IMPROVEMENT BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2014**

	Planning	Design	Construction	Equipment	Inspection	Land	Relocation	Total
Programmatic Agreement (PA) Requirements								
Kako'o	\$ 200,000							\$ 200,000
Humanities Program	\$ 100,000							\$ 100,000
Historic Preservation Committee (HPC)			\$ 900,000					\$ 900,000
HPC Park Improvements			\$ 750,000					\$ 750,000
Subtotal - PA Requirements	\$ 300,000	\$ -	\$ 1,650,000	\$ -	\$ -	\$ -	\$ -	\$ 1,950,000
Consultant Services								
Program Management Support		\$ 10,440,000						\$ 10,440,000
Real Estate Support						\$ 377,400	\$ 377,400	\$ 754,800
HDOT Support Consultants & HDOT Oversight	\$ 420,000	\$ 7,909,000						\$ 8,329,000
Owner-Controlled Insurance Program			\$ 208,100					\$ 208,100
Subtotal - Consultant Services	\$ 420,000	\$ 18,349,000	\$ 208,100	\$ -	\$ -	\$ 377,400	\$ 377,400	\$ 19,731,900
Design								
Dillingham & Kaka'ako Station Groups		\$ 19,428,900						\$ 19,428,900
Pearl Highlands Parking Structure/Bus Transit Center (includes H2 Ramp)		\$ 17,916,100						\$ 17,916,100
UH West O'ahu Park & Ride/Ho'opili Station Finishes		\$ 2,465,900						\$ 2,465,900
Subtotal - Design	\$ -	\$ 39,810,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,810,900
Construction								
Aiport Section Utilities			\$ 24,627,700					\$ 24,627,700
City Center Section Utilities			\$ 63,025,100					\$ 63,025,100
Stations-West O'ahu, Farrington Hwy, Kamehameha Hwy			\$ 151,567,000					\$ 151,567,000
On-Call Construction Contractors			\$ 869,600					\$ 869,600
On-Call HazMat Removal Contractors		\$ 200,000	\$ 800,000					\$ 1,000,000
Elevators & Escalators			\$ 5,000,000					\$ 5,000,000
Owner-Controlled Insurance Program			\$ 1,633,300					\$ 1,633,300
Subtotal - Construction	\$ -	\$ 200,000	\$ 247,522,700	\$ -	\$ -	\$ -	\$ -	\$ 247,722,700
Inspection								
Stations-West O'ahu, Farrington Hwy, Kamehameha Hwy & H2 Ramp					\$ 20,152,400			\$ 20,152,400
Airport & City Center Sections					\$ 36,591,000			\$ 36,591,000
Subtotal - Inspection	\$ -	\$ -	\$ -	\$ -	\$ 56,743,400	\$ -	\$ -	\$ 56,743,400
Equipment - Railcars/Core Systems				\$ 425,907,000				\$ 425,907,000
Right-of-Way and Relocation						\$ 85,570,000	\$ 1,000,000	\$ 86,570,000
Utility Work by Private Utility Owners		\$ 10,000,000	\$ 124,500,000					\$ 134,500,000
Art in Transit Program	\$ 1,975,000							\$ 1,975,000
Quality Audits		\$ 56,600						\$ 56,600
Subtotal FY 2014	\$ 2,695,000	\$ 68,416,500	\$ 373,880,800	\$ 425,907,000	\$ 56,743,400	\$ 85,947,400	\$ 1,377,400	\$ 1,014,967,500
Allowance for Contract Recertification								\$ 100,000,000
Allowance for Contingencies								\$ 225,470,800
TOTAL FY 2014								\$ 1,340,438,300